REPORT OF THE SASKATCHEWAN FINANCIAL MANAGEMENT REVIEW COMMISSION

February, 1992

Saskatchewan

Saskatchewan
Management
Review
Commission

2134 Hamilton Street
Regina, Canada
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92-03037/

February 18, 1992

Hon. E. Tchorzewski
Minister of Finance
Legislative Building
Regina, Saskatchewan
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Dear Mr. Tchorzewski:

We are honoured to submit to you the report of the Financial Management Review Commission. This report has been prepared in accordance with, and responds to, the terms of reference which were established for the Commission in Her Honour, the Lieutenant Governor's Order-in-Council 91/955.

Respectfully Submitted,

Don Gass
Chairperson

Nancy Hopkins
Commissioner

Beth Bilson
Commissioner

Garf Stevenson
Commissioner

Acid-free Paper

TABLE OF CONTENTS

Page

Summary and Highlights 1

Chapter 1
Introduction 5

The Challenges We Face
The Commission's Research Program
Acknowledgements

Chapter 2
Accounting Principles 11

Background
The Independent Setting of Accounting Standards
Financial Information and Accountability
Current Situation in Saskatchewan
Public-Sector Accounting Principles
Implications for the Preparation of the Annual Estimates
Conclusions and Financial Implications of the Commission's Recommendations

Chapter 3
Financial Position of the Province 31

Background
Preparation of the October 31, 1991, Financial Statements
The Province of Saskatchewan's October 31, 1991, Financial Statements
The Financial Position of the Province of Saskatchewan at October 31, 1991
Recommendations for Further Adjustments to the Accumulated Deficit
Observations on the Province's Financial Position
Summary and Conclusions

Chapter 4
The Commission's Review of Transactions and Commitments: The Process 47

Background
Identifying Transactions and Commitments for Review
Conflict of Interest and Confidentiality
The Three-Stage Review Process
Matters Requiring Further Attention

TABLE OF CONTENTS

Page

Chapter 5 71
The Commission's Review of Transactions and Commitments: Observations and Conclusions

Background
Setting and Monitoring Business and Public-Policy Objectives
Obtaining Complete Financial Analyses
Ensuring that Investments are Properly Managed
Clarifying the Relative Roles of the Politicians and Employees
Providing Clear and Adequate Authorization
Fully Disclosing the Financial Implications Associated with a Transaction
Making Organizational Decisions for the Sake of Effectiveness and Efficiency
Guarding Against Conflicts of Interest
Ensuring Appropriate Accounting of the Transactions
Summary and Conclusions

Chapter 6 105
The Structures and Procedures for Public Accountability

Background
Accountability and the Legislative Assembly
Historical Overview
The Government's Organizational Structure
The Consolidated Fund and Parliamentary Financial Control
The Role of Crown Corporations
The Rationale for Establishing Crown Corporations
The Role of the Crown Management Board
Timeliness of Financial Reporting
Controlling the Guaranteed Debt
Summary and Conclusions

Summary of Recommendations 131

Appendix I Order In Council 955/91 139

Appendix II Commission Members and Staff 145

Appendix III March 31, 1991 Financial Statements 149

Appendix IV October 31, 1991 Financial Statements 167

Appendix V Conflict of Interest and Confidentiality Policy 187

SUMMARY AND HIGHLIGHTS

Contextual Considerations

- Saskatchewan faces a difficult financial situation. The main causes are weak markets and low international prices for our agricultural and resource production and economic uncertainty due to worldwide political and market restructuring.

- Government spending has been at levels which cannot be maintained based on the Province's revenue-generating potential. To re-establish a more secure financial position the Government must bring its spending back under control.

- This report provides a benchmark. It has measured our Province's current financial position and has established a base upon which choices can be made for our future.

- This report advocates allowing the residents of our Province and their elected representatives to participate more fully in the Province's decision-making process through public disclosure, thereby making the Government more responsible and accountable.

Accounting Principles

- The accounting principles and the reporting standards which the Government uses to provide financial information on its operations and projects are deficient and should, in the Commission's opinion, be changed. We recommend adopting accounting principles which are set by an external and independent body, thereby avoiding the temptation by governments to alter accounting principles to suit their needs. This report recommends adopting the guidelines of the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

- The PSAAC guidelines will result in all government-controlled organizations, including all Crown corporations, being reflected in the Province's financial statements.

- By applying the PSAAC guidelines, the accumulated deficit of the Province at March 31, 1991 has been restated at $7.538 billion, rather than the $3.688

billion which has been reported in the Public Accounts. The 1990-91 deficit has been restated at $975 million, as compared to the $360 million reported in the Public Accounts. The Commission believes that the revised amounts are a more complete and realistic reflection of Saskatchewan's financial position.

Current Financial Position

- At October 31, 1991, the Province's accumulated deficit, using the PSAAC accounting principles, was $8.697 billion; the Province had incurred a loss for the seven-month period of $1.154 billion. If the Commission's recommendations for taking certain write-downs and loss provisions are accepted, the accumulated deficit would rise to $8.865 billion.

- A major area of concern is the current level of public debt, which at October 31, 1991 was $12.704 billion. The critical issue is its impact on the Government's ability to borrow additional funds in the future to finance additional deficits, as well as the associated annual budgetary expenditures to pay the principal and interest on that debt.

- The Government has followed a policy in recent years of supporting commercial ventures by offering government guarantees of their debt. From March 30, 1990 to October 31, 1991, the Government's guaranteed debt has increased by 75% and is currently at $1.693 billion. This level of debt guarantees exposes the Province to significant financial risk.

Transactions Review

- Forty-seven transactions were reviewed, from which several conclusions have been reached about how governments should conduct their business in the future.

- Several large projects have been undertaken without documenting full and clearly-understood business and public-policy objectives. This lack of documentation has made it difficult to evaluate the success or failure of these investments and the impact on the overall economic well-being of the Province.

- The financial implications arising from certain transactions have not been fully disclosed to the public, nor have they been recognised properly in the Province's financial records.

- The Government has a responsibility to manage its investments and loans in order to ensure that the stated business and public-policy objectives are being pursued and that the Province's financial exposure is being monitored.

Control and Accountability

- The Consolidated Fund should be restored as the primary means through which the Legislature can maintain its control of the Province's finances. Legislative and procedural changes should be made to curtail the Government's ability to use alternative corporate structures (such as the Crown Management Board) and special funds to by-pass the Legislature and to avoid disclosing certain activities and transactions.

- The reporting requirements of Crown corporations should be changed in order to ensure that their financial statements, as well as those of their subsidiaries, are available to the Legislature.

- The Legislature should be more involved in planning, reviewing, and authorizing projects and activities that involve spending large amounts of public funds or exposing the Province to significant financial risk.

- The creation of Crown corporations and their specific mandates must be subject to legislative approval. The Legislature should be responsible for the periodic review of these Crowns to ensure they are operating within their approved mandate.

- The timing of financial reporting and disclosure to the public must be improved in order that it can be effectively utilized to evaluate the performance of the Government.

- The business of government should be open to greater public scrutiny.

CHAPTER 1 - INTRODUCTION

The Challenges We Face

This report is about the challenges we face together as residents of Saskatchewan. It is about our future and the opportunities that lie ahead for ourselves, our children, and our grandchildren.

This report is not about the past. Certainly, there are lessons to be learned from history, but we will not progress by bemoaning the ills of yesterday. During these difficult economic and financial times, we need to concentrate our energies and attention on our province's future.

The people of this province enjoy the benefits of among the best health-care, educational, and social-service systems in the world. Yet, with a declining population and an economy that has been ravaged by weak international markets for our agricultural and resource production, there are serious doubts about our ability to maintain the current range and level of public services.

Our economy can no longer support the public-sector infrastructure that we have built to serve the quality of life and the standard of living that we have come to expect. We need to review our expectations and to determine what we can realistically support with the income generated by Saskatchewan's economy and resources.

The challenges in this report are not just for our new Provincial Government or the Members of the Legislative Assembly. Rather, the challenges are ones that all sectors and all residents of Saskatchewan must meet.

Our Government can't be expected to have all the answers. It can, however, play a key role in facilitating a dialogue among the people of Saskatchewan to seek input on how we can build upon our province's strengths and opportunities. However, consultation and discussion cannot go on forever. Our Government must lead and act decisively to address this province's current economic and financial problems.

These are grim times for Saskatchewan. In the past, our tradition during difficult times has been to focus on "next year" with optimism and hope. That's the

spirit within which the Financial Management Review Commission approached its task.

This report begins by objectively analysing where Saskatchewan stands financially. To do this, we have had to re-evaluate the way that our province's financial position is measured and reported. We have also identified, as realistically as possible, the risks and commitments that could affect this position in the future.

We feel that this report can provide a benchmark against which our province's financial future and our Government's effect on that future can be measured. This report also challenges our Government to take an "open" approach in its actions and activities.

Throughout this document, public disclosure and public accountability are central themes. Our recommendations apply to both the processes and the structures of government. These recommendations are not just aimed at ensuring the honesty and fairness of our governments and politicians, but also at enhancing the ability of our residents to participate in the decision-making processes of our public sector.

Difficult choices will have to be made and opportunities involving varying degrees of financial risk to the Province will be pursued. By keeping the public and their elected representatives better informed and by allowing them to debate the merits and potential pitfalls of various courses of action, better decisions will be made.

We are optimistic about Saskatchewan's future. Our optimism, however, is not based on a "wait-and-see" or "things will work out on their own" perspective. The people of Saskatchewan have to make difficult decisions and to make significant sacrifices in the near-term if we are to see a bright future for our province.

The Commission's Research Program

The Commission's terms of reference are set out in Order-in-Council 91/955 which is in Appendix I of this report. Most of our work focused, first, on the review of the Government's current accounting and financial-reporting practices and, second, on public-accountability and disclosure issues as exemplified by specific transactions and commitments.

The Commission consulted with accounting professionals both within the Department of Finance and the Provincial Comptroller's Office. We also discussed

various issues with external accounting organizations, notably with representatives of the Canadian Institute of Chartered Accountants.

The Provincial Auditor, Mr. Wayne Strelioff, was asked to serve as a special advisor to the Commission. He attended our meetings, participated in the discussions, and when requested, provided various types of analyses for our consideration.

The Provincial Auditor also assisted us in developing the accounting principles which we are recommending in this report for presenting the Government's financial position and the results of its operations. He advised the Commission on the appropriateness of the accounting principles which have been used to prepare the March 31, 1991, and the October 31, 1991, financial statements that are appended to this report. He was not asked to audit, review, compile or otherwise attempt to verify these statements, nor was he asked to provided advice on the application by the Department of Finance of the accounting principles used in the preparation of these statements.

With respect to public accountability and disclosure, our research work concentrated on examining the Government's internal files and documents, as well as interviewing public servants who were involved in the decision-making process or had subsequent responsibilities in administering specific transactions and commitments. In addition, a special research study was commissioned on the structural and procedural issues that are required to hold a government accountable to its public.

Because of the 90-day deadline for completing the Commission's report, we looked at alternatives to holding public hearings as a means of obtaining comments from the public. We decided that a request for written submissions from the public would be a practical and cost-effective approach to obtain these comments.

Notices requesting written submissions were placed, during the second and third weeks of December, in four daily newspapers and in forty weeklies in Saskatchewan. These notices advised of the Commission's existence and asked for suggestions on ways to improve the Government's financial reporting and accountability to the public.

In addition, we sent letters to 58 organizations (representing various professional and financial associations, taxpayers' groups, labour unions, business organizations, academics, and local governments) asking for submissions. All current members of the Legislative Assembly, as well as all former members who have sat in

the Assembly since 1982, (93 individuals) were invited, by letter, to provide their comments.

We received 47 submissions. Eight were from current and former members of the Legislature; 19 came from various organizations and 20 from individuals (excluding current and former politicians).

We invited the Leader of the Opposition and the Leader of the Liberal Party to meet with the Commission and to provide their comments on ways to improve the Government's financial reporting and public accountability. In December, we met with Ms. Haverstock of the Liberal Party.

At our request, we also received presentations by Mr. John Wright (Deputy Minister of Finance), Mr. Don Ching (Acting President of the Crown Management Board), and Mr. Wayne Strelioff (Provincial Auditor). In January, we agreed to a request to meet with representatives of the Association of Saskatchewan Taxpayers.

Because the Commission undertook most of its work during the December and January holiday season, we were pleased with the response to our requests for submissions. In general, the comments and suggestions focused on the broad issues of accounting principles, reporting procedures, and the Provincial Government's overall accountability to the public. We discovered a great deal of concern that the current practices are generally viewed as being inadequate and that this is a major contributor to the growing scepticism and cynicism of the governments' activities. We were particularly pleased to receive detailed suggestions from former and current members of the Legislative Assembly, many of whom expressed serious reservations about the quality and timeliness of the reports that are being tabled in the Legislature and about the usefulness of these documents as tools for monitoring and evaluating a government's actions.

In a few instances, some of the submissions identified matters which were beyond the Commission's mandate or which could not be addressed within our review priorities. Wherever possible, we referred these matters to the appropriate department or Crown corporation for further consideration.

We would like to thank everyone who took the time to provide us with their comments and suggestions. The information was invaluable in the preparation of our report.

Acknowledgements

The Commission would like to acknowledge the research assistance that was provided to our staff by the officials of various departments. For example, the financial statements which appear in Appendices II and III were prepared, in accordance with the Commission's instructions concerning accounting principles, by the staff of the Department of Finance. Specifically, we would like to note the assistance of Mr. Gerry Kraus (Provincial Comptroller) and of Mr. Terry Paton, Mr. Chris Bayda, and Ms. Lori Taylor of the Financial Management Branch of the Provincial Comptroller's Division.

For our review of specific transactions, we received considerable assistance from the staff of the Crown Management Board, the Saskatchewan Economic Development Corporation, and the Saskatchewan Diversification Corporation. In particular, we would like to thank Mr. Les Wright (Director of Accounting Services for the Crown Management Board), Mr. Dennis Frohlick (Vice-President of Loans and Investments for the Saskatchewan Economic Development Corporation), and Mr. John Yeomans (Project Co-ordination Unit of the Saskatchewan Diversification Corporation).

We are also grateful to Mr. Bill Van Sickle and Ms. Cathy O'Byrne of the Department of Finance and to Ms. Susan Zerr of the Public Service Commission for their assistance in arranging office accommodations and in providing staffing support to the Commission. These individuals provided exemplary service in assisting us to be fully operational, at offices located at 2134 Hamilton Street, within seven days after the Premier's official announcement of the Commission's establishment.

The Commission would like to make special mention of the contribution made by our staff members, and in particular Mr. Ken Pontikes who was seconded from the City of Saskatoon to serve as our Executive Director. Mr. Pontikes' professional background and his dedication to the purpose of the Commission, were a significant factor in allowing the Commission to complete its review and report to the public within the terms of our mandate.

CHAPTER 2 - ACCOUNTING PRINCIPLES

Background

As part of our terms of reference, the Lieutenant Governor in Council asked the Financial Management Review Commission to examine and to provide recommendations on:

> "The accounting principles that should be used to present the financial position and the results of operations of the Government, including its Crown Corporations, boards and commissions for the year ending March 31, 1992."

To accomplish this request, we consulted with and considered submissions from various accounting professionals and organizations. A major contributor was the Canadian Institute of Chartered Accountants and in particular, its documents on public-sector accounting and auditing. We gratefully acknowledge the Institute's contribution to improving the accountability of all governments to their respective publics.

The Independent Setting of Accounting Standards

For the private sector, accounting standards in Canada have for many years been set by the Canadian Institute of Chartered Accountants (CICA) and are currently documented in a Handbook which is regularly updated by the Institute. The use of these standards is, for most businesses, required through legislation or regulation or as a result of the demands of third parties, such as lenders. On the other hand, the setting of nationally-recognized accounting standards for governments and other public-sector agencies is a matter of more recent consideration.

In the past, governments in Canada have adopted accounting and reporting principles which suit their immediate and internal requirements. Often, this has resulted in fragmented, incomplete, and confusing financial statements. Without externally-determined standards, governments can, if they wish, use accounting practices which present their actions in the most favourable light. Therefore, as is the case in the private sector, proper disclosure and full accountability can only be achieved if the accounting and reporting standards are set independently from the reporting organization.

Governments do not operate and are not financed in the same manner as businesses. The objectives of business emphasize profit and loss to managers and shareholders. The performance of a government, on the other hand, is measured in terms of broad societal or economic aims and may thus be difficult to assess directly. As a result, separate accounting principles are needed for government entities and enterprises which are not oriented towards profit and for which certain principles in the CICA Handbook may not apply.

In 1981, the Canadian Institute of Chartered Accountants established the Public Sector Accounting and Auditing Committee (PSAAC). This Committee consists of senior executives and experts in the financial reporting and auditing of governments and other public-sector entities. Its members include accountants with public-sector expertise, senior public servants with financial or auditing responsibilities, executives of government agencies and enterprises, chief financial officers of local governments, and academics. The Committee's role is:

> "To serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and auditing standards of good practices." [1]

The results of the Committee's work are documented in a series of public-sector accounting and auditing statements.

Financial Information and Accountability

The Government's financial statements should provide information on its current financial condition and on whether this condition has improved or deteriorated from one period to the next. At a minimum, the Commission believes that the statements should consist of the following components:

- a statement of financial position,
- a statement of revenues and expenditures, and
- a statement of changes in financial position.

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[1] Public Sector Accounting and Auditing Committee, PSAAC: What it is & What it Does (Canadian Institute of Chartered Accountants), p. 2.

The statement of financial position ("balance sheet") should provide sufficient information for the reader to determine the amount of future revenue that is required to pay for past decisions and activities, and the amount of existing financial assets that are available to finance future operations. The statement of revenues and expenditures ("statement of current year's surplus or deficit") should show whether the government has met its current expenditures by raising sufficient revenues, thereby allowing the reader to evaluate the Government's financial activities and priorities and any demands that they have placed on the Government's future revenues. Finally, the statement of changes in financial position shows how the Government's activities were financed (e.g. raising revenues, incurring liabilities, borrowing) and the impact of this financing on future cash requirements.

Our evaluation of the Province's financial statements has focused on whether the information is sufficient to hold the Government and its Crown corporations and agencies accountable for their actions to the taxpayers. However, we recognize that these statements may also be used by individuals and organizations who require information on the government's activities for other reasons. The readers can come from diverse backgrounds and interests -- legislators, members of executive government, public servants, members of the public, investors, financial analysts, contractors, suppliers, journalists, and others.

For the taxpayer, we believe that the Government has an obligation to prepare financial statements that are:

- understandable to readers who do not have a great deal of knowledge of or experience in accounting or financial principles, and
- credible by conforming with accepted principles and standards that ensure fair, full, and accurate disclosure of the financial affairs of the reporting agency.

For readers with a reasonable understanding of financial information and with a willingness to study the information, the statements should be sufficient to assess the reporting entity's current and future financial position, including the Government's on-going ability to raise revenues and to obtain sufficient cash (through yearly revenues or through borrowing) to satisfy its expenditure requirements.

Particular attention must be placed on the reporting requirements which will satisfy the needs of the Members of the Legislative Assembly who represent the interests of the taxpayers. It is a fundamental principle of parliamentary democracy

that the Government is accountable to the Legislature for the management and use of the Province's financial resources. Therefore, the Province's financial statements should be presented in a form which provides sufficient information to assist the Legislature not only in evaluating the past performance of the Government, but also in determining future trends.

In addition, the financial information must be in a form that is useful for the government's internal financial management and decision-making processes. In a Crown corporation, for example, management may require information for decision-making that is in a different degree of detail or structure than what would be useful to the Members of the Legislative Assembly. Elected officials may wish detailed information on specific payments in order to monitor management's tendering practices; on the other hand, the corporation's directors may wish the information in a more consolidated form to evaluate the impact of various policy decisions on the entity's overall financial position.

The Canadian Institute of Chartered Accountants has attempted to address these issues. PSAAC identified the following five objectives for government financial statements:

- The financial statements should communicate reliable information which is relevant to the needs of those for whom the statements are prepared and in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely, and consistent.

- The financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible, including those related to the activities of government agencies and enterprise.

- The financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it. In this regard, the financial statements should provide information which is useful in:

  (i) evaluating the government's performance in the management of its financial affairs and resources, and

(ii) assessing whether the government administered the financial resources in accordance with the limits established by the appropriate legislative authorities.

- The financial statements should account for the sources, allocation, and use of the financial resources requested by the government in the period. In this regard, the financial statements should:

  (i) account for all government expenditures by their nature and purpose, all revenues by their source and type, and the extent to which revenues were sufficient to meet expenditures, and

  (ii) show how the government financed its activities during the period and how it met its cash requirements.

- The financial statements should present information which displays the state of the government's finances. In this regard, the financial statements should provide information which:

  (i) describes the government's financial condition at the end of the accounting period, and

  (ii) is useful in evaluating the government's ability to finance its objectives and meet its liabilities and commitments. [2]

The Financial Management Review Commission supports these objectives as the basis for determining the accounting and reporting standards which should be applied in preparing the Government of Saskatchewan's future financial statements.

Current Situation in Saskatchewan

As in many other jurisdictions, the people of Saskatchewan want to be more involved in the decision-making processes of their governments, particularly when financial resources are becoming more scarce and when the public's perceptions and demands for services are changing. Therefore, the public's growing desires and

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[2] Public Sector Accounting and Auditing Committee, Public Sector Accounting Statement No. 2: Objectives of Government Financial Statements (Canadian Institute of Chartered Accountants, November 1984).

expectations that it will be consulted in determining the government's spending priorities and programs must be supported by regular, consistent, easy-to-understand, and timely reports on the state of the public purse, on the substance of the various transactions and events which have occurred, and on the government's performance in addressing particular situations and in meeting specific objectives.

Legislative requirements with respect to the form and content of the Saskatchewan's Public Accounts are vague. Section 65 of The Financial Administration Act provides that the financial statements should show the revenues and expenditures of the government, as well as the "state of the consolidated fund and of any trust and special funds managed by the Minister." They also must "set forth all matters that are required to explain the financial position" of the Government. Separate sections of the Act provide for the preparation of reports on such matters as guarantees and investments. Overall, the Government has considerable flexibility in determining the accounting practices and reporting format for the Public Accounts.

Under the current format of the Province's Public Accounts, Saskatchewan's main financial statements "combine" the information on the financial activities of the Consolidated Fund and the Heritage Fund. Essentially, these combined funds statements account for the financial resources which are directly appropriated through annual votes taken in the Saskatchewan Legislature.

In our evaluation of Saskatchewan's current accounting practices and financial statements, we have concluded that they do not meet the previously-mentioned PSAAC objectives and do not provide sufficient information to fully understand the Province's financial position and to evaluate the Government's financial operations and management. They do not report in a convenient and easily understood manner the combined position of all government-owned entities. They do not include full information on the financial activities of all of the organizations which are owned or controlled by the Government. In some instances which will be identified later in this report, the accounting treatment has resulted in misleading information which has served to understate the Province's accumulated deficit. In addition, over many years and in accordance with a parliamentary tradition that the statements are tabled in the Legislature before being released to the public, the information has not been provided in a timely fashion.

We believe that these deficiencies seriously jeopardize the effectiveness of the decision-making processes and public accountability of the affairs of the Government

of Saskatchewan and its Crown corporations, boards, commissions, and other agencies. Significant changes are urgently required.

For the purposes of comparison, we examined the financial-reporting structures and requirements of other provinces. The Commission is of the view that the financial reporting in Saskatchewan is among the weakest and least useful in Canada from an accountability perspective.

This will not be the first time that the Province's financial-reporting practices have been criticized. For example, beginning in 1984, successive reports of the Provincial Auditor have expressed reservations about the relevancy and completeness of the information which is provided in the Government's main financial statements. In his March 31, 1991, report, the current Provincial Auditor concluded in his audit opinion that the 1990-91 main financial statements do not present fairly the financial position of the Government. The reasons for this opinion are summarized in the following excerpt from his report:

> "These financial statements do not follow accounting principles appropriate for government financial statements. The financial statements do not include all the organizations owned or controlled by the Government. Also, the financial statements do not include sufficient information to provide a clear and full understanding of the financial position of the Government. If appropriate accounting principles were followed, the financial statements would be materially different." [3]

This criticism is not a result of specific actions taken by the previous Saskatchewan Government; the deficiencies go back many years. To a large extent, the problem has arisen because the accounting and reporting standards have not been adjusted to represent properly the increasingly complex and diverse operations and management structures of the Saskatchewan Government. Other provincial governments have been more responsive to the growing interest in improving the public-sector accounting and reporting standards and have changed, to varying degrees, their financial statements and reporting procedures.

[3] Provincial Auditor of Saskatchewan, Auditor's Report, July 17, 1991.

Public-Sector Accounting Principles

We have used the CICA objectives for public-sector financial statements to develop our recommendations on the specific changes which should be made to the Government of Saskatchewan's accounting and reporting practices. These changes are the minimum that we feel are required to give proper reporting to the general public and to make the Government accountable for its financial actions.

As we stated at the beginning of this chapter, we believe that it is difficult to hold governments accountable for their actions if they have the discretion to determine the manner in which the information on these activities will be reported. Currently, Section 15 of The Financial Administration Act contains the only indication by the Legislature of the accounting basis for Saskatchewan's Public Accounts -- that is, the accounts must be kept "by double entry" and must show the "financial condition" of the Government and of all trust and special accounts. These provisions give inadequate direction to the Government. In our opinion, the accounting principles of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants should be specified in this Act as the basis upon which Saskatchewan's financial statements will be prepared.

We feel that the process which is being followed by, and the accomplishments to date of, the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants are excellent and its recommendations are an appropriate base upon which to establish the accounting principles for the Province of Saskatchewan. As has been the experience with the CICA's accounting principles for the private sector, the establishment of public-sector accounting principles is an on-going and evolving process. The over-riding issue is not the specific principles that may be documented at any time, but rather a commitment by the Government to utilize independently-established accounting principles in the preparation of its financial statements. For this reason, we are recommending that the Province's commitment to the PSAAC's principles should be legislated.

Recommendation 2 - 1: The Commission recommends that the Government of Saskatchewan should, through legislation, adopt the accounting principles and reporting standards which are established, and specified, from time to time, by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

The adoption of PSAAC's guidelines does not mean that their application will not be subject to some interpretation by the preparer of the financial information. Depending on the particular circumstance, some degree of judgement is required to apply the accounting principles and conventions which are generally accepted within the profession and are documented by the CICA. The judgement issues may include:

- making estimates about the current value of an asset,
- allocating costs between different accounting periods, and
- disclosing the information in sufficient detail to be useful, but not overwhelming (and therefore, confusing) for the reader.

The accounting and reporting treatment of various transactions depends on their effect on the financial position of the reporting entity and the manner in which this effect will be presented in the financial statements. Often, the uncertainty of the situation or the difficulty in obtaining the appropriate estimates require the use of detailed notes which become an integral part of the financial statements.

In order to implement PSAAC's accounting principles, we have identified the following specific changes which should immediately be made to the Government of Saskatchewan's financial reports:

1. Summary Financial Statements Involving All Government Operations

Governments utilize a variety of entities to carry out both financial and non-financial (public) policies and to deliver a wide range of programs and services. Through the departmental structure, the organization and accounting structures are integrated into the Government's political and administrative operations. In other instances, separate corporate entities are established, with their own boards of directors and with certain delegated powers. As a result of the Province's on-going ownership and control of these entities, the Legislature has a responsibility to scrutinize their activities to ensure that they are well-managed and that their assets are being protected. The Province's financial statements should report on the full nature and extent of its various financial activities, regardless of the structure through which these activities take place.

In Saskatchewan, there is no single set of financial statements which brings all of these activities together to determine the overall financial position of our Provincial Government. Currently, these statements include the results of operations, assets, and liabilities of the Consolidated Fund and the Heritage

Fund. By excluding the activities of such Crown corporations as SaskPower, SaskTel, SaskWater, and SGI, as well as many boards and commissions, approximately $6.8 billion of assets and $1.7 billion of revenues and expenditures are not being reported.

Recommendation 2 - 2: The Commission recommends that the Province's main financial statements should report on the financial condition and operating results of all organizations that are owned and controlled by the Government of Saskatchewan.

In addition to providing a more complete overview of the Province's financial position, these statements will better represent the Government's investment in its Crown corporations (i.e. the Government's proportionate share of their deficits or surpluses in each year), rather than just the dividends paid to the Consolidated Fund. This would avoid the temptation for a Government to declare dividends which exceed the actual earnings of its commercial Crowns for the purpose of reducing the operating deficit of the Province's other activities.

The preparation of comprehensive government-wide financial statements is a technical, and sometimes judgemental, exercise. A basic question is the breadth of the reporting -- that is, what entities should be included. In PSAAC Accounting Statement No. 4, the government reporting entity is defined as comprising those organizations:

> "which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government." [4]

According to PSAAC, an ownership arrangement exists whenever the government holds (directly or indirectly) the organization's net assets or the right (by holding sufficient voting shares) to appoint the majority of its board of directors. Control exists when the government is in a position, through

[4] Public Sector Accounting and Auditing Committee, Public Sector Accounting Statement No. 4: Defining the Government Reporting Entity (Canadian Institute of Chartered Accountants, November 1988).

legislation or through its ability to appoint the senior management or the majority of the board of directors, to determine the entity's financial and operating policies. Under these tests of ownership or control, the operations of organizations which are regulated by or are financially dependent upon the Government (e.g. universities) are excluded from the Government's financial statements as long as this regulation or dependency does not involve an element of ownership or control.

Our recommendation involves the consolidation of the financial activities of the various reporting entities. This recommendation goes beyond a commitment of the previous Minister of Finance to "compile and include in the Public Accounts a collection of the financial statements of all government organizations". [5] The consolidation process involves more than providing a collection of statements; rather, it requires integrating the financial information and deleting the off-setting entries which occur when funds are transferred between these entities. Under the PSAAC guidelines, the consolidation process consistently aggregates the accounts of most entities on a line-by-line basis; however, special rules apply to government-owned or controlled enterprises that obtain most of their revenues from the sale of services to individuals and organizations outside of the Government's structure.

2. Reporting the Government's Unfunded Pension Liabilities

Currently, the Province's main financial statements do not reflect the unfunded pension liabilities of the superannuation plans for which it has a financial responsibility. According to recent projections, the Saskatchewan Government's unfunded liability has grown to $2.9 billion.

For any employer, pensions represent deferred wages which the organization promises, as a contractual obligation, to pay in the future to its employees for services which they are currently providing or have provided in previous years. Because they represent a commitment on the employer's future spending (and, as a consequence, a commitment to ensure that sufficient revenues are available at that time to make these payments), these obligations must be valued and taken into account as a liability in determining the organization's financial position. The valuation procedures follow well-established actuarial

[5] Honourable Lorne H. Hepworth, Minister of Finance, "A New Agenda for Public Accountability", November 13, 1990.

principles and methodologies and involve forecasting such factors as inflation, investment returns, and employee turnover and mortality. These valuations should be reviewed on a regular basis -- PSAAC suggests, at least, every three years -- in order to take into account the impact of changes to the plans or to the economic factors which will affect the amount of funds which will be available to make the future payments.

Most governments do not record their total unfunded pension liabilities; however, this does not absolve them of their contractual obligations to pay, in the future, the deferred compensation which is owed to their employees. By clearly recognizing an unfunded pension liability, the responsibility is placed on the current administration to implement a financing strategy to address the liability (e.g. putting more funds into a reserve on an annual basis, reviewing the investment strategy for this reserve). It is important that the financial statements account for the government's total pension liabilities in order to show the extent to which pension obligations exist and are to be paid from cash which is raised from future tax and other revenue sources.

Recommendation 2 - 3: The Commission recommends that the various pension plans for which the Government of Saskatchewan is responsible should be actuarially-valued regularly (at least every three years) and that unfunded liabilities associated with these pension plans should be recognized in the main financial statements as a liability.

3. Internal Loans

The Government's financial statements include loans which have been made to Crown entities for various purposes. However, the repayment of these loans may depend upon the Government making the appropriate allocations to the same entities through its annual budget. The most significant example of this type of financing was the use of the Saskatchewan Property Management Corporation (SPMC) as a funding vehicle for the construction of numerous health-care and educational buildings.

Before SPMC was established, the costs of constructing these facilities were recognized as capital grants which were paid on a cash basis in the fiscal year, were part of the annual budgetary process, and were subject to review and approval by the Legislature. The payments, therefore, were treated as

expenditures in the year that they were made and formed part of the Province's annual deficit. This treatment was consistent with other capital grants and with the accounting policies followed by other governments.

Beginning in 1987, SPMC became responsible for distributing funds for these capital projects. It also allowed the Government to by-pass the Legislature's normal budgetary approval process and to avoid fully reflecting these capital payments as part of the Province's deficit. The required funds were advanced as a loan by the Government to SPMC which then advanced the funds as a loan to the appropriate health and educational institutions. These loans were made on the understanding that future grants would be provided by the Government to the institutions to allow them to repay the principal and interest. Not only did the creation of SPMC result in these advances being treated as an asset, rather than a current year's expenditure, it also resulted in the recognition of "interest revenue" by the Government on these loans -- "revenue" that would be paid from future grants.

In a report to the Commission, Mr. John Kelly, Director of Public Sector Accounting and Auditing for the Canadian Institute of Chartered Accountants, states that the Government's current procedure of spreading over several years the capital costs of the Saskatchewan Property Management Corporation is using "accounting to hide the substance of the transactions and [to] get around the stated accounting policies of the government (which would write off the assets on acquisition)". We agree that the use of SPMC to distribute funds for capital projects is inappropriate and therefore, understates the Province's accumulated deficit.

Recommendation 2 - 4: **The Commission recommends that transactions involving loans, which can only be repaid through future budgetary appropriations by the Government, should be treated as expenditures, rather than assets (i.e. loans receivable), in the Government's financial statements.**

Recommendation 2 - 5: **The Commission recommends that, in order to implement Recommendation 2 - 4, all existing loans of the Saskatchewan Property Management Corporation should be written off against the Province's accumulated deficit.**

As of March 31, 1991, the amount of the write-off (and the addition to accumulated deficit) to implement these recommendations concerning certain loans of the Saskatchewan Property Management Corporation is approximately $700 million.

4. Accrual Accounting

Currently, the Government's main financial statements are prepared on a cash basis. Revenues are only recognized when they are received and expenditures, when paid. Contingent liabilities are reflected in the statements only when the cash payment is made.

At the end of each fiscal year on March 31, the Province's books are left open for another thirty days, until April 30, so that any revenues received or expenditures made in that period, but relating to the previous year, are recorded as revenues and expenditures of the previous year. This procedure is called the "modified cash basis of accounting".

This approach to accounting is inappropriate for meaningful reporting of the Government's activities. It can distort the financial position of the Province insofar as it is affected by the timing of certain revenues and expenditures. This can jeopardize decision-making and management activities that require sound financial information.

Recommendation 2 - 6: The Commission recommends that the Government of Saskatchewan should record all of its financial transactions by using the principles of accrual accounting.

Under accrual accounting, the Government's financial statements will account for all amounts which are due and for all amounts which are owed by the Government at the end of the fiscal year. Liabilities will be recognized when they are incurred or when there is considerable likelihood that a contingent liability must be honoured, irrespective of the date when the cash payment is made.

The acceptance of this recommendation would also result in the recognition of all accounts receivable and accounts payable at year end. In addition, it would require a full analysis of all contingent liabilities and guarantees in order to evaluate the likelihood that these contingencies might be called upon.

5. Asset Valuation Allowances

A valuation allowance is an estimate of the amount by which the expected net realizable value of a asset has declined below the amount of the original gross investment in that asset. Valuation allowances are also used to adjust the value of financial assets; these include allowances for doubtful accounts receivable and loans receivable.

Losses on loans receivable or assets which have fallen in value below the amount recorded in the Government of Saskatchewan's accounts are currently written off against the Government's accumulated deficit -- that is, they are not reflected in the current year's operating deficit. Also, these losses tend to be recognized only when they are actually realized, rather than making a budgetary allowance for the write down when it is required.

Recommendation 2 - 7: The Commission recommends that any required valuation allowances against loans and investments should be recorded as a budgetary expenditure in the year when the write-down is necessary.

A recent example of a situation where such a write-down should occur was identified by the Provincial Auditor in his audit opinion on the 1990-91 financial statements. He recommended that certain loans made by the Crown Investments Corporation of Saskatchewan to the Saskatchewan Transportation Company and to the Saskatchewan Forest Products Corporation should be written off because their accumulated deficits "are not temporary and represent appropriate evidence that the liabilities of these corporations significantly exceed the estimated realizable value of their assets".

When the decline in the value of an asset is other than temporary and therefore, should be written down or off is a matter of professional opinion. Acceptance of this recommendation would require a more thorough and regular review and evaluation of all of the Government's loans and assets and a determination of whether any allowance for valuation purposes is required. Its consequence is better financial statements for decision-making and management purposes, as well as improved financial accountability to the public for past actions of the Government.

6. Other Financial Issues

The PSAAC guidelines include a number of reporting requirements which are designed to improve the information that is disclosed in the financial statements. For example, the Commission agrees that supplementary schedules should be provided which disclose the Government's expenditures both by major program area and by object of expenditure (e.g. salaries, travel, etc.).

Implications for the Preparation of the Annual Estimates

The PSAAC guidelines require that the Province's main financial statements should include the approved budgetary figures for comparative purposes. Therefore, the changes in accounting principles and format, plus the expanded scope of the reporting entity, will also apply to the preparation of the Estimates.

While the Commission has been able to obtain financial statements under the PSAAC guidelines within a relatively short period of time, we are aware that it will not be possible to convert the budgeting process as quickly. Many procedural issues need to be considered, including determining whether there will be any implications on the review procedures of the Legislature's Committee of Finance. The implementation may have to be phased over several years to provide the Members of the Legislature and others who are involved in the preparation, review, and analysis of the annual Estimates with an opportunity to become fully familiar with the implications of the various components of these guidelines.

Conclusions and Financial Implications of the Commission's Recommendations

Our recommendation to adopt the PSAAC accounting guidelines as the basis for preparing the financial statements of the Government of Saskatchewan and of its Crown corporations, boards, commissions, and other agencies is similar to a recommendation which was made to the Legislative Assembly of Saskatchewan by the Provincial Auditor in his March 31, 1990, report on the Province's 1989-90 financial statements. We believe that the preparation of the financial statements under these guidelines will more appropriately reflect the financial position of the Province.

To demonstrate the effect of introducing the specific changes which we have recommended in this report, the Provincial Comptroller was requested to apply them

to already-released March 31, 1991, statements. The revised summary statements are attached as Appendix III. While they have been compiled from information in the audited March 31, 1991, financial statements, the revised statements under the PSAAC guidelines have not been audited.

The application of the PSAAC guidelines has resulted in a revaluation of the Province's accumulated deficit to take into account circumstances and transactions which are not currently being recorded or recognized in the Government's combined funds financial statements. The statements which the Legislature has received show the accumulated deficit at $3.688 billion on March 31, 1991. Under the PSAAC guidelines, the Province's accumulated deficit has grown to $7.538 billion.

There is general agreement within the financial community that the accumulated deficit is an appropriate measure of a government's financial position. Therefore, the $3.85 billion change in the Saskatchewan Government's reported accumulated deficit is significant because it identifies, for the first time, the magnitude of the Province's financial difficulties from the perspective of all of its activities and operating entities.

With respect to the 12-month deficit for the 1990-91 fiscal year (that is, the amount the accumulated deficit increased during 1990-91), the combined fund financial statements record it at $360 million. Under the PSAAC guidelines, the deficit for the year was actually $975 million.

The following analysis summarizes the major factors which, by applying the PSAAC guidelines, have contributed to the Province's higher accumulated and current deficit for the fiscal year ended March 31, 1991:

(in thousands)

Opening accumulated deficit (at March 31, 1990) as reported in the financial statements of the Combined Funds which were tabled with the Legislature	$(3,315,952)
Recognition of the unfunded pension liability that existed as at March 31, 1990	(2,681,185)
Write-off of advances to the Saskatchewan Property Management Corporation, existing as at March 31, 1990, which rely on future government funding for repayment	(554,705)
Net effect of consolidating or recognizing on the modified equity basis the affairs of all government Crown corporations, commissions and agencies	(17,405)
Loss for the 1990-91 fiscal year accounted for on the basis of the PSAAC guidelines	(975,280)
Other Adjustments	6,509
Accumulated deficit as at March 31, 1991 as determined under the PSAAC guidelines	$(7,538,018)

The impact on the loss for 1990-91 is summarized as follows:

	(in thousands)
Loss for the 1990-91 fiscal year as reported in the financial statements of the Combined Funds which were tabled with the Legislature	$(360,430)
Current year's portion of the unfunded pension liability	(249,267)
Current year's write off of advances to the Saskatchewan Property Management Corporation	(138,080)
Current year's write down of loans and investments of the Crown Management Board to market value	(113,549)
Current year's operating results of the organizations owned and controlled by the Government of Saskatchewan (as per the Commission's recommendation 2 - 2)	348,417
Elimination of dividends previously recorded as revenue as a result of consolidating all government operations (as per the Commission's recommendation 2 - 2)	(495,000)
Other adjustments	32,629
Loss for the 1990-1991 fiscal year accounted for on the basis of the PSAAC guidelines	$(975,280)

The implementation of the PSAAC guidelines has a significant effect on the reported financial results of the Province. However, we believe that the information which is presented under these guidelines provides a truer picture of the overall Province's financial condition and provides the Government and the public of Saskatchewan with important information necessary to formulate future fiscal policies and to evaluate program and policy priorities. By bringing into the statements the commitments on future revenues and all existing and potential liabilities, the users of this information are better able to determine the Government's financial position and its ability to maintain and to expand its services in the future.

CHAPTER 3 - FINANCIAL POSITION OF THE PROVINCE

Background

The terms of reference for the Financial Management Review Commission include a request to report on:

> "The financial position of the Government, including its Crown corporations, boards and commissions as at October 31, 1991, or such other date as may be conveniently chosen by the Commission, using those same accounting principles as determined under (1)".

The accounting principles which we have recommended are outlined in chapter 2 of this report. They are based on the standards being advocated by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants. In restating the March 31, 1991, financial statements and now in preparing our report on the Province's October 31, 1991, financial position, we have applied the PSAAC standards which, in our opinion, are the minimum requirements for providing a full and clear presentation of Saskatchewan's finances.

Preparation of the October 31, 1991, Financial Statements

In order to assess the Province's financial position at October 31, 1991, the Commission required financial statements for the period between April 1, 1991 to October 31, 1991, inclusive. The preparation of these statements was co-ordinated through the Provincial Comptroller's Division of the Department of Finance whose staff worked closely with the Commission and whose assistance is gratefully acknowledged. In addition, we would like to recognize the co-operation and support of the staff of various departments, the Crown Management Board, and several larger Crown and Treasury Board corporations who provided updated financial information for incorporation into these statements.

The Province of Saskatchewan's October 31, 1991, Financial Statements

Attached as Appendix IV are the October 31, 1991, consolidated financial statements of the Province of Saskatchewan, as prepared under the PSAAC

accounting principles. Because of time and budgetary constraints, the Provincial Auditor's Office was not asked to audit or to express an opinion on these statements. Instead, the documents were reviewed by the Commission's professional staff to assess their reasonableness. Also, the Provincial Auditor has advised the Commission that the methods which were used by the Department of Finance to compile these statements are reasonable.

The implication of not having undertaken a full audit of the attached statements is that they may be subject to some degree of inaccuracy. However, the Commission and the Provincial Comptroller's Office are of the opinion that any inaccuracies will not be significant enough to affect the Commission's observations and conclusions about the financial position of our Province as at October 31, 1991.

The Financial Position of the Province of Saskatchewan at October 31, 1991

For the seven-month period which ended on October 31, 1991, the Province realized an operating loss of $1.154 billion, thereby raising the accumulated deficit to $8.697 billion. These figures must be carefully placed into the context of other numbers in this report and in documents from the Department of Finance.

First, the $1.154 billion figure is a status report of the deficit that has been incurred during the seven-month period from April 1, 1991 to October 31, 1991, inclusive. It is not comparable with the $975 million figure which has been given in chapter 2 of this report. The latter figure is for the 12-month period ending March 31, 1991.

Unfortunately, there is no comparable information against which to consider this seven-month deficit figure. It has been prepared in accordance with accounting principles which have not been previously used by the Province. Also, the Province of Saskatchewan does not have a tradition of preparing mid-year financial statements for public consideration. By contrast, some provincial governments in other parts of Canada are issuing quarterly statements.

Interim statements issued during the fiscal year would improve the financial accountability of the Government because the public will have an opportunity to assess, for themselves, the financial results. Currently, the Government has the discretion to indicate, periodically and in a very summarized form, the mid-year financial position of the Province. These reports are often presented verbally and

might be supplemented by news releases or documents which are written to support certain associated actions. Unless the Government takes the initiative to advise the public that the actual financial operations vary significantly from the budget, there is no alternative mechanism in place to obtain this information.

It should be noted that in November 1990, the former Minister of Finance announced that the previous Progressive Conservative Government was prepared to issue a financial statement "mid-way through the year which details and explains the Government's forecasted financial position". [1] We urge the current Government to carry through with this commitment and to work towards issuing financial statements on a quarterly or semi-annual basis.

Recommendation 3 - 1: **The Commission recommends that the Government of Saskatchewan should work towards the preparation, for public consideration, of mid-year interim financial statements.**

A second consideration in evaluating the mid-year financial statements is the impact of the cash-flows on the deficit figure for this period. Without comparable financial statements for the same period in previous years, it is difficult to assess what this mid-term figure implies for the final year end deficit. The Department of Finance advises that the Province traditionally receives a greater proportion of its revenues from its sales tax, from Federal Government transfers and from other sources during the latter part of the fiscal year. Historically, the rate of expenditures is also lower in this latter period. Consequently, the October 31, 1991, deficit cannot be extrapolated to forecast the magnitude of a year end loss.

Finally, the information which has been provided in this report should not be compared with the Minister of Finance's recent deficit forecasts. On December 16, 1991, the Minister projected that the 12-month deficit to March 31, 1992, will be $851.7 million. That forecast was not prepared in accordance with the PSAAC accounting principles and therefore, does not represent a full accounting of all government-owned and controlled entities.

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[1] Hepworth, op. cit., p. 3.

Recommendations for Further Adjustments to the Accumulated Deficit

During the course of our review, the Commission examined several transactions which have had an impact on the Province's financial position. Many of these transactions will be reviewed in greater detail by the Department of Finance, the Crown Management Board, and the Provincial Auditor at the time when the 1991-92 year end financial statements are prepared. Therefore, the financial implications associated with these transactions have not been incorporated in the appended October 31, 1991, statements.

Based on our review of recent transactions, we have identified a number of potential adjustments involving provisions for loss and write-downs which, if accepted, will increase the accumulated deficit. We have also identified a number of investments which the Commission feels could have a significant effect on the financial position of the Province, and for which, at this time, we have not made any recommendations for additional loss or write-down provisions.

The following table outlines several potential adjustments to the October 31, 1991, accumulated deficit. If processed, these adjustments would have the effect of increasing the October 31, 1991, accumulated deficit to $8.865 billion.

(in thousands)

Accumulated Deficit as reported in the October 31, 1991, consolidated financial statements	$8,696,658
Write-down of the carrying value of certain Saskatchewan Water Corporation assets which have insufficient revenue-producing ability	115,000
Additional allowance for losses on SEDCO loans (as estimated by management)	14,000
Write-down of carrying value of Saskatchewan Grain Car Corporation assets which have insufficient revenue-producing ability	36,000
Additional provisions for losses on Saskatchewan Diversification Corporation loans and investments	3,500
Estimated Accumulated Deficit of the Province as at October 31, 1991	$8,865,158

The largest write-downs in the preceding table pertain to transactions involving the Saskatchewan Water Corporation and the Saskatchewan Grain Car Corporation. The following is a brief explanation of our rationale for making these recommendations:

- Saskatchewan Water Corporation

  The Saskatchewan Water Corporation has entered into an agency agreement with the Souris Basin Development Authority regarding the construction of the Rafferty and Alameda dams. The original estimate of the capital cost of this project was $120 million, with the financing being $57.5 million from the United States Government, $20.0 million from SaskPower, and $42.5 million from the Province. The U.S. funding is secured by a contract; apparently, a contract has not been signed with SaskPower.

As of December 31, 1991, $170.5 million has been spent on this project and it is estimated that another $42.1 million will be required to complete the work. Because the funding from the U.S. Government and SaskPower is fixed, the Province's share of the project has risen from $42.5 million (on a total project cost of $120 million) to $155.1 million (on a revised project cost of $212.6 million). To date, the Saskatchewan Water Corporation has been assigned the responsibility for financing the Province's share of the cost of this project.

In our opinion, the Province's cost represents a public-policy expenditure. Our analysis of the objectives of the project has revealed that the dams will not directly produce sufficient revenue to finance the cost which has been assigned to SaskWater. According to the documentation which we have examined, the Rafferty dam is being constructed to provide a reservoir of cooling water for the Shand Thermal Electric Generating Station (of which SaskPower has estimated the value of the benefit at $20 million and will accordingly contribute this amount towards the financing of the dam), to facilitate the development of enhanced recreation opportunities, to supply water for irrigation, to provide flood protection, and to support certain fish, waterfowl, and wildlife species. The Alameda dam will also serve recreational and irrigation objectives; it will support Saskatchewan's water apportionment obligations to the United States and will be part of a park development.

We believe that the Saskatchewan Water Corporation should not be held responsible for financing the cost of achieving the dams' objectives. In our opinion, these costs have been inappropriately capitalized and are being shown as an asset in SaskWater's records. Rather, the public-policy component of the project should have been funded through budgetary expenditures which are approved by the Legislature and are expensed in the year that the funds are disbursed.

In order to finance the construction of the dams, the Saskatchewan Water Corporation has borrowed the required funds from the Government. Interest has been charged on these loans and has been recognized as revenue on the Province's books. This financing approach has placed a debt on SaskWater's financial statements. The corporation is unable to repay this debt because the dams do not have the ability to generate revenue.

Accordingly, the Department of Finance and the Commission are recommending that $115 million of the costs which have been capitalized on the books of SaskWater for the construction of the Rafferty and Alameda dams should be written off. This amount has been calculated on a pro-rated basis (reflecting the expenditures which have been made to October 31, 1991). The remaining amount will have to be written off in the future.

- Saskatchewan Grain Car Corporation

  The Saskatchewan Grain Car Corporation (SGCC) was established in 1979 for the purpose of acquiring railway stock suitable for the transportation of grain and other products. The purpose of the corporation was to assist the Canadian Wheat Board in transporting Saskatchewan grain.

  When the Corporation was established, it was capitalized through a $55 million loan from the Heritage Fund. This amount has been reduced to $36 million through repayments of $8.6 million and loan write-offs of $10.4 million.

  Based on past history, the Corporation's only source of significant income has been through grants from the Consolidated Fund and it is anticipated it will have little ability or likelihood of generating income in the future. Because of the Corporations's inability to repay the balance of the outstanding loan without further grants from the Consolidated Fund, we recommend that the remaining balance should be written off.

In addition to the adjustments which we have recommended in this chapter, the Commission also is concerned about a number of large investments which, by their very nature, represent a significant financial risk to the Province. Generally, these investments apply to projects which are still under development and therefore, it is impossible, at this time, to quantify or provide any meaningful estimate of the risk exposure. Future economic events and decisions made by the current Government can affect the impact of these investments on the Province's financial position. We, therefore, recommend that the following investments should be closely monitored and reviewed prior to March 31, 1992 in order to determine whether any write-downs or provisions for loss are required:

- Meadow Lake Pulp Limited Partnership and the Bi-Provincial Upgrader

  As at October 31, 1991, the Province has invested $317 million in these two projects. Each of these projects is in various stages of development and will be operational in the future.

  The Commission did not review any documentation suggesting that a provision for loss on these investments is required. However, we noted that recent economic circumstances are significantly different than was anticipated when the original financial forecasts were prepared. Therefore, these investments must be closely monitored to ensure that current trends affecting some of the underlying economic assumptions do not reduce the values of these investments. We also caution that, because the investments have been valued in accordance with a long-term view of market and economic conditions, the Government should be careful not to over-react to short-term commodity fluctuations.

- NewGrade Energy Inc.

  As at October 31, 1991, the Province has invested approximately $232 million in this project and has guaranteed $334 million of debt. Through the Crown Management Board, the Government has already written down virtually all of its $232 million investment and this write-down is reflected in the Province's accumulated deficit, as reported in the October 31, 1991, financial statements.

  Largely because of a significant decrease in oil prices, NewGrade Energy Inc. is presently experiencing significant operating losses. The Province is currently discussing with its joint-venture partner, Consumer Co-operative Refineries Limited, a plan to improve the projects's economic performance. This investment must be monitored and, prior to March 31, 1992, a decision should be made as to whether a loss provision will be required on the Province's contingent liability for this project, as represented by the $334 million of guaranteed debt.

- CAMECO Corporation

  The Province began the current fiscal year with a 61% ownership interest in CAMECO -- A Canadian Mining and Energy Corporation. Subsequently, it sold certain shares in the company.

  By October 31, 1991, the Province's investment in CAMECO was $418 million, representing an ownership interest of approximately 34%. A $121 million loss was recorded on this sale and is reflected in the October 31, 1991, financial statements. The loss occurred because the current trading prices of the CAMECO shares are significantly less than the Province's cost.

  If the Province disposed of its remaining holdings in CAMECO at current trading prices, it could incur a further loss of approximately $146 million. The Commission has not seen any evidence that CAMECO's long-term underlying value has deteriorated.

  The new Government will have to decide whether to continue reducing the Province's ownership interest in this company. If the Government intends to reduce further its interest, an additional loss provision should be considered as at March 31, 1992. If the Government intends to hold onto its present shares in CAMECO and to treat them as part of a long-term investment in the company, a write-down will not be required. However, an adjustment could still be triggered if evidence is presented that the long-term underlying value of the company has declined.

As mentioned previously, the Commission is not suggesting or recommending any provisions for loss or write-downs on these investments. However, because of their significance and uncertainties in their underlying values, they should be closely reviewed when the March 31, 1992, year end financial statements are prepared.

Recommendation 3 - 2: **The Commission recommends that provisions for loss and write-downs should be made during the 1991-92 fiscal year for the following investments:**

- **Saskatchewan Water Corporation**
  $115.0 million
- **Saskatchewan Economic Development Corporation**
  $14.0 million
- **Saskatchewan Grain Car Corporation**
  $36.0 million
- **Saskatchewan Diversification Corporation**
  $3.5 million

Recommendation 3 - 3: **The Commission recommends that the Province's investments in the following projects should be closely monitored to determine whether provisions should be made as at March 31, 1992:**

- **Meadow Lake Pulp Limited Partnership**
- **Bi-Provincial Upgrader**
- **NewGrade Energy Inc.**
- **CAMECO Corporation**

Observations on the Province's Financial Position

Financing the Deficit

The magnitude of the Province's accumulated deficit clearly demonstrates that the Government of Saskatchewan is in an extremely serious financial position. This has already been reflected in the Province's credit ratings which dropped from among the highest to among the lowest of any provincial government in Canada.

The recent decision by the Dominion Bond Rating Service to lower the Saskatchewan Government's rating to BBB High is a major concern. The Province is judged to be a greater credit risk and therefore, lenders who make decisions on the basis of this agency's evaluation will charge an interest rate premium on any funds that the Province borrows for future projects and operating deficits. But, more important, the drop in the credit rating to the "B

category" will mean that many investors, because of their investment policies, will not lend money to Saskatchewan.

The latter concern can not be overemphasized. The annual deficit of the Province arises when there are not sufficient revenues received in the current year from taxes, Federal Government grants, natural resource royalties, and other sources to pay for the year's operating expenditures on such services as hospitals and medicare, schools and universities, highway maintenance, and grants to municipalities and other organizations. In order to pay the bills for these services, the deficit must be financed by borrowing the funds from external sources such as banks and pension funds.

The question which must now be addressed is more fundamental than whether the Government should continue to operate at a deficit. Rather, it is whether, under lower credit ratings, the Province will be able to borrow the funds which are necessary to finance future deficits (i.e. to borrow the cash necessary to pay its bills). As previously stated, the investment policies of many of Saskatchewan's traditional lenders may preclude them from financing such deficits because of the current bond ratings. In addition, those who can continue to lend to the Province may decide, in the process of evaluating the amount of risk in their portfolios, that they are not prepared to add much more to the loans that they have already made to the Government of Saskatchewan.

The Size of the Public Debt

The accumulated deficit represents only one portion of the total debt of the Province and relates to the financing of government departments and service organizations. Another portion relates to the financing of revenue-producing Crown corporations. As is noted in Schedule 8 of the attached financial statements, the Province's total public debt was $12.704 billion on October 31, 1991 -- $8.766 million for government departments and service organizations and $3.938 billion for revenue-generating Crown corporations.

While it is anticipated that the revenue-producing Crown corporations will have the continued ability to generate sufficient income to meet the interest costs on their share of the debt, the current interest costs on the remainder (and largest portion) of public debt must be funded from the Government's general revenue sources. As a result of increasing debt loads and high interest rates,

the Government's debt servicing costs have escalated rapidly. For example, during the 1990-91 fiscal year, 18% of the Province's revenues went towards paying the cost of its debt. If the debt level was lower, a proportionate amount of these revenues would be available, for example, to finance additional programs and services for the residents of Saskatchewan.

Unfunded Pension Liabilities

According to Schedule 7 of the October 31, 1991, financial statements, the Province's unfunded pension liability is now estimated to be $3.084 billion. This amount is recognized in the Government's financial statements because it represents a contractual obligation to certain public-sector employees. The Government must address how this deficiency will be dealt with.

The Commission notes that almost all of the unfunded pension liability can be attributed to two plans -- the Teacher's Superannuation Fund and the Public Sector Superannuation Fund. The deficiencies have been known for many years, but have not been recorded in the Saskatchewan Government's financial statements. By not recognizing their existence as affecting the financial position of the Province, we believe that succeeding governments have been able to avoid addressing these liabilities. By deferring actions such as making regular budgetary contributions to finance these deficiencies, a greater burden is placed on future generations and the expenditure flexibility of subsequent governments is reduced.

Investments in Government Enterprises

The Province has a significant investment in government enterprises which consist of revenue-producing Crown and Treasury Board corporations (e.g. Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Liquor Board). At October 31, 1991, the Province's investment in these enterprises totalled $1.431 billion. For the period covered by the financial statements in Appendix IV, these enterprises generated combined earnings of $223 million. The details on the financial situation for each of the enterprises which contributed to these figures are provided in Schedule 4 in the financial statements.

In previous years, the Government was able to utilize the income generated from these government enterprises to reduce the overall operating loss of the Province's departments and service organizations. However, as noted on the October 31, 1991, financial statements, the partial-year income generated was barely sufficient to offset the $215 million write-down on other loans and investments made by the Crown Management Board. These write-downs include:

- $67 million of losses in NewGrade Energy Inc.,
- a write-down of $25 million on the investment in Meadow Lake Pulp Ltd., and
- a $122 million loss on the sale of the Government's investment in CAMECO.

During the 1990-91 fiscal year, various government enterprises (through the Crown Management Board) provided a dividend of $310 million which was used to finance the operations of government departments and programs. Last spring, the proposed 1991-92 Provincial Budget anticipated a $250 million contribution from the Crown Management Board (CMB). However, this amount will not be realized. According to a December 16, 1991, analysis by Deloitte & Touche, this payment was "nullified" because certain proposed SaskTel and SaskPower rate increases were not implemented and because a loss was realized on the sale of CAMECO shares. More significantly, the consultants concluded that "the payment of dividends by the Crown corporations and by CMB [during the past three years] required cash borrowings by either the Crown Corporations or CMB resulting in increased interest costs [and] reducing their ability to pay future dividends". In other words, excessive dividends have been withdrawn from the major revenue generating Crown corporations (specifically, SaskPower and SaskTel) and have, therefore, impaired their potential to continue to provide such dividends in near future.

Investments in Commercial Enterprises

At October 31, 1991, the Government also has a $1.523 billion investment in other commercial enterprises. These investments (which include equity holdings and loans) are itemized in Schedule 6 of the financial statements and include such ventures as Weyerhaeuser ($189 million), Meadow Lake Pulp Limited Partnership ($140 million), the Bi-Provincial Upgrader ($177 million),

Potash Corporation of Saskatchewan ($266 million), CAMECO ($418 million), SaskOil ($63 million), Cadillac Fairview Corporation ($41 million -- mortgage receivable), and Saskferco Products Inc. ($38 million). While many of these investments have generated or have the potential to generate significant economic benefits to the Province, we have determined through our review that these investments also carry with them certain levels of financial risk that must be monitored on an on-going basis.

Guaranteed Debt

In recent years, the Province's total amount of guaranteed debt has increased rapidly. The Government has demonstrated a growing preference for providing financial support to private sector commercial ventures through loan guarantees, rather than through equity investments, direct loans, or cash grants.

On March 31, 1990, the Government of Saskatchewan had issued guarantees for $0.962 billion. A year later, the guarantees had increased by almost 40% to $1.329 billion. According to Schedule 10, the Province's guaranteed debt on September 30/October 31, 1991, was $1.693 billion.

The increased use of loan guarantees appears to be a consequence of the Province's current financial situation. Other forms of direct assistance, such as grants and advances, affect the deficit and further reduce the Government's cash position. Furthermore, a growing accumulated deficit and the on-going need to borrow in order to finance its own operations make loan guarantees a convenient alternative to support various projects.

The recent guarantees appear to have played a critical role in attracting various economic diversification ventures to Saskatchewan. However, they have also exposed the Province to financial risks. By guaranteeing a loan, the Government has decided to accept a risk that other (notably, private sector) institutions are not prepared to bear alone. The Government's accountability is not only with respect to the magnitude and appropriateness of the transaction, but also with respect to the risk that the project will not be able to meet its financial obligations and that the loan will be called.

The largest loans to commercial ventures which the Government of Saskatchewan has guaranteed include $334 million for NewGrade Energy Inc., $355 million for HARO Financial Corporation (Crown Life), $261 million for Saferco Products Inc., and $51 million for Weyerhaeuser Canada Ltd. The Province also has the following significant debt guarantees against program loans: $306 million for the Home Improvement Loan Program, and $38 million for the Mortgage Guarantee Program. We are concerned about the total amounts of debt guarantees which are now in effect and about the ability of the Province to meet these guarantees if they are called.

Treaty Land Entitlements

The Saskatchewan Government signed a cost-sharing agreement, in September 1991, with the Federal Government concerning the treaty land entitlements for 27 of the 70 Indian bands in the Province. This is the first of three types of agreements which must be signed to complete the transfer of certain lands to these bands.

In our opinion, the full extent of the financial liability has not been sufficiently confirmed (because negotiations are still underway) to incorporate an amount into the Province's financial statements. The status of the negotiations is being monitored by the Department of Finance on a regular basis and the financial impact of the resulting agreements will be taken into account when the liability has been determined.

Summary and Conclusions

The Province's October 31, 1991, financial statements indicate that the Government of Saskatchewan has a very large accumulated deficit which has affected its ability to borrow sufficient funds to meet its on-going financial requirements and to maintain its programming at current levels of service. The Province is also financially exposed, to a significant degree, on its debt guarantees and faces a risk that some of these guarantees will be called in the near future.

In our opinion, the Government must include within this spring's budget, a strategy to restore the financial strength of its balance sheet. Because its ability to raise significant revenues through additional taxation is negligible and because there are serious questions about its ability to borrow sufficient funds to finance another

major annual deficit, we believe that the Government has no alternative but to include in this plan a process for lowering its overall level of expenditures. This means that consideration must be given to the reduction, restructuring, and elimination of programs.

All sectors of Saskatchewan's economy must share the impact of the down-sizing of the Government. This may require a major adjustment in the public's expectations of what the Provincial Government is able to do for them. While the Government has an obligation to allocate the reductions among the various sectors in a fair manner, it must also be able to respond to any opportunities which arise to strengthen Saskatchewan's economic and financial position in the future. Without a strong revenue base, the Provincial Government can no longer support the number and quality of programs and services that, as residents of Saskatchewan, we have perhaps taken for granted. The Government should continue to support those activities and initiatives which have the ability to expand its revenues over the short- and the long-term.

Recommendation 3 - 4: **The Commission recommends that the Government of Saskatchewan should incorporate, as part of this spring's Provincial Budget, a financial plan which includes a strategy to restore the strength of the Province's balance sheet.**

CHAPTER 4 - THE COMMISSION'S REVIEW OF TRANSACTIONS AND COMMITMENTS: THE PROCESS

Background

A significant portion of the Commission's staff resources and work program was allocated towards the review of transactions and commitments of the Saskatchewan Government, including its Crown corporations, boards, commissions, and other agencies. According to its terms of reference, the Commission was requested to enquire and to provide a report on the following:

"2. An overview of significant transactions occurring since January 1, 1983 under which assets owned by the Government, including its Crown corporations, boards and commissions, have been sold or otherwise disposed of, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

3. An overview of significant commitments undertaken by the Government, including its Crown corporations, boards and commissions since January 1, 1983 involving contributions or commitments, contingent or otherwise, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

4. With reference to (2) and (3) above, a review of information setting out the Government's objectives when the decision to enter into a transaction or a commitment was undertaken, the criteria to be used to determine whether those objectives were or are being achieved, the effect the decision was to have on the Government's financial position and, where appropriate, performance to date."

This chapter of the Commission's report will explain the process that we used to address this portion of our terms of reference. The results of our review of various transactions and commitments and our observations and recommendations on issues which should be considered by the Government of Saskatchewan will be presented

in chapter 5. Later in this chapter, we will identify areas where the Commission believes that further studies or inquiries are needed.

Identifying Transactions and Commitments for Review

Because of practical limitations on the time and staff resources which were available to the Commission, it was necessary for us to priorize, through formal criteria, those matters which would receive the most detailed level of review.

In our opinion, through the review criteria and processes which we developed to implement our work plan, the Commission has examined transactions and commitments which were within the scope of our terms of reference and which have had a significant effect on the Province's current and future financial position. We have identified areas where the Government might have an opportunity to take action to improve the present financial situation. We also examined those transactions and commitments that might serve as models or that might identify issues and procedures for improving the Government's overall financial management and public accountability. As a result, the Commission's most detailed reviews concentrated on recent transactions and commitments which involved large contingencies or allocations of the Province's financial resources.

Initially, the Commission took a broad approach in identifying those transactions and commitments which would be examined within its work program. The Department of Finance (on behalf of the Treasury Board) and the Crown Management Board were requested to provide lists of transactions and commitments under their respective jurisdictions. These lists were then supplemented by activities and events which were identified by the Commissioners and the Commission's staff, as well as by the general public through formal submissions, letters, telephone calls, and facsimiles.

The lists were consolidated and working files were established through the application of a "transactions definition". The Commission made an early decision that its review of transactions and commitments would concentrate on evaluating public accountability and management issues. We did not address any political decisions. We did not look at a transaction (let alone assess the associated management decisions) if it had been approved by and debated in the Legislature and if the decision-makers were adequately held accountable for their actions through the timely public disclosure of the results of their decisions. The Commission

implemented this approach by applying the following definition of a transaction (which included a commitment) to the above-mentioned lists:

> A transaction involves any decision or action which has not specifically been identified within the Estimates and Supplementary Estimates of the Government of Saskatchewan. Decisions and actions involving changes to the programs and services of the Government, which have been presented in a budgetary context to the Legislative Assembly, have generally not been reviewed or considered by the Financial Management Review Commission.
>
> Notwithstanding the preceding definition, a decision to terminate or restructure a program or service may be considered to be a transaction if it involves the disposal of assets with a significant value or the establishment of an unfunded liability which is still outstanding. In these circumstances, it is not the rationale for the termination or restructuring of the program which will be reviewed by the Commission; rather, consideration will be given to:
>
> - the consequences of the decision or action insofar as it affects the present or future financial position of the Government, and
> - the extent to which these consequences have been fully disclosed to the public.

By applying this definition, forty-seven working files were established and referred to the Commission's staff for evaluation.

Conflict of Interest and Confidentiality

From the start, the Commissioners and the Commission's staff were very sensitive to ensuring that conflicts of interest did not jeopardize the credibility of their work. Furthermore, there was a conscious effort made to operate the Commission at arms' length from the current Provincial public service and therefore, all of the professional and consulting staff was seconded or contracted from sources outside of the Government's structure. This action raised questions about the confidentiality of the information which might be reviewed by the individuals associated with the Commission and who, at the end of its mandate, would no longer be associated with the Government.

It should be noted that all of the Commissioners and the Commission's staff approached their responsibilities in a professional manner and were governed by the codes of ethics which apply to their professions. For greater clarity, the Commission decided to document a conflict of interest and confidentiality policy in order to remove any doubt as to the conduct that was expected of its members and staff. A copy of the Commission's policy is attached as Appendix V.

As is noted in the policy, all Commissioners and all professional members of the Commission's staff signed a memorandum of understanding with respect to conflict of interest and confidentiality issues. Procedures were also established to ensure that individuals declared their conflicts and were excused from the meeting room when matters pertaining to these conflicts were discussed.

The selection of the Commission's professional staff was undertaken as broadly as possible in order to minimize the potential that conflicts of interest could prevent the evaluation of certain transactions. Four professional accountants were seconded or contracted to the Commission; each was affiliated with a different accounting firm. Legal firms were surveyed to determine potential conflicts of interest and based on this criterion, as well as their experience and expertise, a law firm in Regina was chosen to serve as the Commission's legal counsel and another from Saskatoon assisted in the transactions review.

This approach to undertaking the reviews worked very well. With one exception, the Commission was able to allocate the review responsibility for all of its files among its four accounting professionals. (For the one instance where all four declared conflicts of interest, the transaction was reviewed by the lawyer on our review team.)

The Three-Stage Review Process

Each of the working files was subjected to a three-stage review process which was developed by the Commission. A file proceeded from one stage to the next upon the formal approval of the Commission.

The Commission scheduled a six-week period for reviewing the working files. With limited financial and staff resources, we applied priorization criteria during the first stage of the review to ensure that the Commission's efforts were concentrated

on those transactions and commitments with the greatest impact or potential impact on the financial position of the Saskatchewan Government.

While all of the working files were reviewed under the first stage of the process, some did not proceed to a more detailed review under stages 2 and 3. A decision not to proceed to the latter stages is not an indication that these files did not contain issues with respect to financial management or public accountability. This decision only means that the matter was not of sufficient significance relative to the other transactions and commitments to be priorized for the more detailed review.

Stage 1

The purpose of the first stage of the Commission's review process was to determine for each working file:

(a) whether further staff resources and time should be allocated to undertake a detailed review, and

(b) the specific matters which should be reviewed.

The Commission's staff, after consulting with the appropriate officials and undertaking a cursory review of the relevant documentation, provided the Commission with the following information:

- a brief description of the nature of and activities associated with the transaction or commitment,
- an indication of the Province's financial involvement in the transaction or commitment, and
- a recommendation on the significance of the transaction or commitment within the Commission's overall work program (i.e. should a more detailed review take place and if so, what should be the scope of the review).

The recommendations at this stage were made from a work-priorization and resource-allocation perspective. The transaction or commitment was evaluated against pre-determined criteria which the Commission developed for this purpose. Without these criteria, our limited time and staff would not have been used effectively. The

Commission would not have considered as many transactions and commitments as it did.

Under these priorization and allocation criteria, the transactions and commitments (hereafter referred to as "transactions") which were identified within each working file were required to satisfy at least two of the following criteria before a further detailed stage 2 would be considered:

1. The transaction involves the disposal of assets or the establishment of a potential liability of greater than $5 million.

2. The transaction has had a high degree of public visibility.

3. The transaction was undertaken for the purpose of (but not necessarily confined to) generating funds which will be applied towards reducing the debt/deficit of the Provincial Government and/or its agencies and Crown corporations.

4. The transaction was undertaken as a result of discretionary powers which have been granted to all or some members of the Provincial Cabinet and has not specifically been identified by a budgetary provision in the Provincial Estimates or Supplementary Estimates.

5. The transaction was undertaken as a result of discretionary powers which have been granted to the directors of a Crown corporation, board, or commission and could have a significant impact on the Government's financial position.

6. The transaction involves a loan guarantee or similar commitment by the Province on behalf of an entity which is not a Provincial Government department, agency, or Crown corporation.

7. The transaction involves the re-organization and incorporation of new corporate or departmental entities which involved combined assets of at least $10 million.

8. The transaction involves equity financing (through the sale of shares or similar instruments to individuals and/or to non-government entities) of at least $10 million.

The Commission's staff provided a recommendation on the applicability of these criteria to each transaction. However, prior to considering a recommendation, each Commissioner was required to declare (under the provisions of the Commission's conflict of interest policy) his or her eligibility to participate in the discussion and to decide further action on the specific matter. Commissioners and staff with a conflict of interest left the meeting. The remaining Commissioners then evaluated the staff member's report and recommendations and would authorize (by a majority vote) any further review of the matter.

Because conflicts of interest could reduce the number of Commissioners who would review the research information on various transactions, procedures were established to ensure that a minimum of two Commissioners were involved in every decision. The Commission decided that in situations where two of the four Commissioners declared a conflict of interest and were not eligible to participate in the review of a specific transaction, the Commission's Executive Director would be authorized to cast a vote on the matter. In circumstances where more than two of the Commissioners declared a conflict of interest, the transactions would not be further reviewed by the Commission; however, the Commission did not encounter any transactions of this nature.

Stage 2

Stage 2 involved the accumulation and analysis, by the Commission's staff, of information pertaining to the specific transactions or commitments in accordance with the directions of the Commission. This stage was research-oriented and involved reviewing pertinent documents and interviewing the officials who are knowledgeable about the circumstances, events, and consequences of the respective transaction.

While the Commission had the ability to subpoena the information required for its reviews, it was not necessary to use this power during the course of its research program. The Commission's staff received the full co-operation of all departments and agencies and was given access to the necessary documentation. Officials of these departments and agencies were very helpful in clarifying and explaining various issues and providing background information on matters pertaining to the available

information. We would particularly like to acknowledge the assistance of the staff of the Crown Management Board and of the Saskatchewan Economic Development Corporation.

The stage 2 research methodology was structured in accordance with the matters identified within the Commission's terms of reference, as well as incorporating review attributes for measuring effectiveness which have been developed by the Canadian Comprehensive Auditing Foundation. [1] For the stage 2 reviews, the following matters were considered:

1. What were the objectives in undertaking the transaction or commitment and what criteria were identified to determine whether the objectives were or are being achieved?

    - Were they in line with the mandate of the agency that will be held accountable for their achievement?
    - Were they disclosed?
    - Were they authorized?
    - Were they measurable?
    - Were they established with consideration being given to the cost versus the benefit?
    - Was consideration given to the consequences of secondary impacts (i.e. those not identified as the primary objectives of the transaction or commitment)?

2. What effect does the transaction or commitment have on the financial position of the Government (i.e. was the financial risk determined and disclosed)?

    - What is the nature of the risk (e.g. amount, extent of the commitment)?
    - Was there an up-front assessment of the risk?

[1] Canadian Comprehensive Auditing Foundation. Effectiveness: Reporting and Auditing in the Public Sector, 1987.

- Has there been an on-going evaluation of the risk and does a mechanism exist for responding appropriately to changing circumstances?
- Has there been a proper accounting of the risk?
- Has the commitment or contingency been properly disclosed?
- Are adequate structures in place to ensure that the relevant assets (e.g. sources of supply, valuable financial and physical property, key personnel, important records or information) are protected?

3. Is there a mechanism for measuring performance (i.e. for determining whether the objectives are or have been achieved)?

4. Have the financial components of the transaction or commitment been adequately and appropriately managed?

   - Have sufficient and appropriate staff resources been assigned to it?
   - Are the sources or disposition of the funds or assets appropriate?
   - Is an appropriate method being used to account for the revenues and costs and for the assets, liabilities, and equity that are affected by the transaction or commitment?

5. Were the terms and financial implications of the transaction or commitment appropriately identified and reported to the public (i.e. public accountability)?

   - Does it comply with the relevant legal obligations and authorities (e.g. statutes)?
   - Was the disclosure undertaken in a timely fashion?
   - How did the disclosure occur (e.g. Public Accounts, Crown Management Board, news release, other)?

Stage 3

We used the stage 2 reports to identify the issues and to develop the recommendations which are identified in chapter 5 of this report. For each report, the Commission reviewed the information and discussed with the Commission's staff the observations and conclusions which might be of significance in preparing its recommendations to the Government. The results of these discussions, as well as any additional recommendations of the staff, were documented in a stage 3 report.

Subsequently, the Commission reviewed and approved each stage 3 report, subject to the clarification of any portions of the document or the inclusion of additional observations, conclusions or recommendations. In some instances, the transactions, while significant, had not advanced far enough to draw any definite conclusions about financial management and public accountability matters; therefore, stage 3 reports would not be prepared. At the end of the Commission's research period, stage 3 reports were prepared for 12 of the files.

Transactions and Commitments that were Reviewed by the Commission

In order to accommodate the ninety-day deadline for reporting to the Minister of Finance, the Financial Management Review Commission completed its research and review program on January 31, 1992. For practical reasons associated with the final preparation and production of this report and in light of the research and analysis requirements of our three-stage review methodology, any transactions which were identified subsequent to January 31, 1992, could not be considered and therefore, are not addressed in this report.

The following is a list of the forty-seven working files on transactions and commitments of the Government of Saskatchewan which the Commission opened and considered during its six-week research and review program. The files which received only a stage 1 review have been marked with an asterisk (*); those which proceeded through to stage 3 have been noted with two asterisks (**):

- The proposed $50 million agreement between the Saskatchewan Power Corporation and **Atomic Energy of Canada Ltd. (A.E.C.L.)** to investigate various economic opportunities resulting from an expanded nuclear industry in Saskatchewan (*)

- The approval process and the repayment status of production loans, totalling over $1 billion, which the **Agricultural Credit Corporation of Saskatchewan** provided farmers in 1986

- The Saskatchewan Economic Development Corporation's term and participation loans to **Austrak Machinery**, an agricultural equipment manufacturer in Weyburn (*)

- The Crown Management Board's equity investment (as a joint-venture partner along with the Federal and Alberta Governments and Husky Oil), and the Province's potential financial exposure, in the construction of the **Bi-Provincial Heavy Oil Upgrader** at Lloydminster (**)

- The financial implications for the Province arising from the merger of the Saskatchewan Mining Development Corporation and Eldorado Nuclear Limited to create **CAMECO -- A Canadian Mining & Energy Corporation**, as well as the impact on the Province's financial position of the sales, in 1991, of voting shares and special warrants (thereby reducing the Province's ownership interest in this company)

- The Saskatchewan Economic Development Corporation's initial financing of and subsequent sale of the assets of **Canapharm**, an intravenous solutions and equipment manufacturing plant in Wolseley (**)

- The implications of the loan guarantee provisions of the **Community Bond Program**, including the procedures for assessing the Province's potential financial exposure arising from specific bond offerings

- The Crown Management Board's guarantee of the Canadian Imperial Bank of Commerce's credit arrangement with **HARO Financial Corporation**, as part of the transfer of the head office of Crown Life to Regina

- A general review of the organizational structure, financing policies, and management procedures of the **Crown Management Board** in connection with its role in facilitating various loans and investments (*)

- The **sale of provincially-owned dental equipment** by the Saskatchewan Property Management Corporation after the Government privatized, in 1987, the delivery of its dental program for children (*)

- The implications of the three-year liquor-distribution franchise which has been granted by the Saskatchewan Liquor Board to the **Friends of the Riders** (*)

- The procedures and the nature of the assistance that was provided by the Saskatchewan Economic Development Corporation and by the Saskatchewan Government Growth Fund to finance a recent expansion of the facilities of **Flexi-Coil Ltd.**, an agricultural implements manufacturer in Saskatoon (**)

- The Saskatchewan Economic Development Corporation's actions and procedures with respect to the sale of assets, inventory, and receivables of **Friggstad Manufacturing Ltd.** to Flexi-Coil Ltd. (*)

- The financial assistance provided by the Saskatchewan Economic Development Corporation for the construction of a bacon plant in North Battleford by **Gainers**

- The decision-making and monitoring procedures which supported the financial involvement of the Crown Management Board and the Saskatchewan Economic Development Corporation in **GigaText Translation System Ltd.** to develop computer software for translating Saskatchewan's statutes from English to French (**)

- The circumstances under which **Meadow Lake Sawmill Ltd.**, a subsidiary of the Crown Management Board's Crown Investments Corporation Industrial Interests Inc. (CIC III), sold a sawmill and planer-mill at Meadow Lake and a sawmill at Green Lake (including a lease of property) to NorSask Forest Products Inc. (*)

- The **sale of provincially-owned, heavy construction equipment** by the Saskatchewan Department of Supply and Services after the Government privatized, in 1983, its highway-construction operations (*)

- The decision-making and monitoring procedures supporting the financial assistance which was provided by the Saskatchewan Economic Development Corporation to **Hunters Manufacturing Ltd.**, a sporting-goods retailer and recreational-vehicles manufacturer (**)

- The current and long-term financial implications of the 1991 cost-sharing agreement concerning **Indian treaty land entitlements** in Saskatchewan (*)

- A general review of the management and accountability issues pertaining to financial assistance provided under the authority of **The Industry and Commerce Development Act**, specifically the use of this Act to authorize guarantees to HARO Financial Corporation and Saskferco Products Inc.

- The procedures used when the Saskatchewan Economic Development Corporation sold some of its land to **Joytec Ltd.**, as well as confirmation that the Corporation did not provide any other form of financial assistance to this company (*)

- The Saskatchewan Economic Development Corporation's financial exposure following its seizure of the assets of **M.A.S. Medical Ltd.** (a manufacturer of diagnostic equipment which is used in treating cardiopulmonary problems) which planned to move its manufacturing facility from Pennsylvania to Saskatoon (*)

- The Province's financial contribution and ownership position with respect to the zero-effluent, chemi-thermomechanical pulp mill which is being constructed near Meadow Lake in partnership with **Millar Western Industries Ltd.** (**)

- The Province's financial contribution and ownership position with respect to the construction and operation of the **NewGrade Upgrader** in Regina

- The procedures for considering applications for financial assistance from the **Northern Saskatchewan Economic Development Fund** (*)

- The Province's financial contribution and ownership position with respect to sale and relocation of the Florida-based manufacturing facilities of **Piper Aircraft Corporation** (*)

- The financial implications for the Province arising from the privatization of the **Potash Corporation of Saskatchewan**

- The financial implications for the Province arising from the Crown Management Board's sale of its investment (through CIC III) in **Prairie Malt Limited** to ET Corp

of North America (a subsidiary of Schreier Malting Company) and to the Saskatchewan Wheat Pool

- The Province's financial contribution and exposure with respect to the establishment of a jet-trainer manufacturing facility in Saskatoon by **Promavia International Corporation** (*)

- The financial implications for the Province due to special agreements with senior employees of Crown corporations which entitle them to certain **severance allowances** (*)

- The Province's financial contribution and the procedures for managing its financial exposure with respect to the **Rafferty/Alameda Project**, including the implications of the Saskatchewan Water Corporation's agency agreement with the Souris Basin Development Authority

- The Province's financial contribution and ownership interest in the construction and operation of a fertilizer plant at Belle Plain by **Saskferco Products Inc.**, including a review of the Province's financial exposure and the process by which it is managing its investment in the project (**)

- The establishment, operation, financing, and accountability of the **Saskatchewan Diversification Corporation**, including the Province's financial exposure resulting from investments and guarantees which have been provided to various companies by this corporation (**)

- The accounting treatment and financial implications associated with the establishment of the **Saskatchewan Energy Corporation (Sask Energy)**, including the method by which the new corporation was established and its accountability and reporting relationships (**)

- The management and investment policies and practices of the **Saskatchewan Government Growth Fund**, as well as any implied financial exposure that the Province might incur as a result of the Fund's operations

- The financial implications for the Province arising from the sale, in 1988, of the two operating divisions of **Sask Minerals**, specifically the sale of the sodium

sulphate division to Kam-Kotia Mines Ltd. and the peat moss division to Premier Cdn. Enterprises Ltd. (*)

- The financial and investment implications for the Province as a result of the sale of most of its shares in the **Saskatchewan Oil and Gas Corporation (SaskOil)**, including this company's acquisition from Sask Power of certain petroleum and natural gas properties

- The accounting and financing practices that were used to finance the Province's contribution to **Saskatchewan Place** in Saskatoon (*)

- The accountability of **SaskSport** with respect to the grants which it provides from lottery proceeds to cultural, sport, and recreational organizations (**)

- The financial position of the **Saskatchewan Economic Development Corporation (SEDCO)**, including its impact on the Province's financial position, the status of certain loans and investments, and any other matters (such as procedures for considering and approving requests for financial assistance and the extent to which Cabinet decided not to follow management's recommended course of action) that came to our attention through our review of specific loans and transactions (**)

- The incorporation and initial sale of assets to the **Saskatchewan Property Management Corporation**, as well as the impact that this corporation has had on the Province's financial position and the rationale for its organizational structure and mandate (**)

- The financial involvement of the Saskatchewan Economic Development Corporation in the **Supercart Project** (*)

- The approval procedures and the amount of the Province's financial contribution to **Trinitel**, a manufacturer of telephone hand-sets that established a plant in Melville (*)

- The Province's financial contribution and exposure and the Saskatchewan Economic Development Corporation's management of **Westank**, in light of its operational losses in every year since 1980

- The financial and ownership implications for the Province arising from the privatization of the Saskatchewan Computer Utility Corporation (SaskComp) and the computer services and data terminal divisions of Sask Tel and resulting in the creation of **Westbridge Computer Corporation**, including the future commitments concerning service contracts between Westbridge and various government departments and Crown corporations

- The financial implications of the Saskatchewan Economic Development Corporation's purchase of shares in **Western Canadian Beef Packers Ltd.** to expand a meat-packing plant in Moose Jaw and the provision of a loan to **Norex Foods** to upgrade a ham-processing plant in Saskatoon (*)

- The financial and ownership implications for the Province arising from the sale, in 1986, of the assets of the Prince Albert Pulp Company to **Weyerhaeuser Canada Ltd.**, including the Province's potential financial exposure as a result of current market conditions

In summary, the Commission undertook a detailed review of twenty-seven transactions. With respect to most of the remaining files which only received a stage 1 review, the decision not to proceed with a more detailed analysis was made in accordance with the priorization criteria which were outlined earlier in this chapter.

In our review process, four of the transactions (the proposed agreement with Atomic Energy of Canada Ltd., the Indian treaty land entitlements cost-sharing agreement, Piper Aircraft Corporation, and Promavia International Corporation) did not proceed to stages 2 and 3 because negotiations are still underway and are not yet in a form which could be scrutinized by our formal review methodology. The matter of employee severance allowances was debated in the Legislature when the new Government introduced legislation to limit their financial implications; hence, the Commission felt that it was not necessary to assign further research resources to this issue.

Matters Requiring Further Attention

The Commission's terms of reference contemplated that the 90-day timeframe would constrain our ability to undertake a full review of the Government's more complex transactions. Therefore, we have been requested to advise the Government on:

> "any other matter the Commission of Inquiry may deem necessary as a result of information coming to their attention during the course of the inquiry".

Also, as part of our consideration of significant transactions and commitments, our terms of reference provide that:

> "if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend".

Accordingly, we have identified the following matters which we believe are worthy of further review and consideration by the Government.

- Tendering, Leasing, and Contracting Procedures

  We received several submissions from individuals and businesses who questioned the fairness of the process by which tenders, leases, and other contracts are awarded. In every case, the complaint came from an unsuccessful bidder and pertained to the actions of specific Crown corporations and non-departmental agencies.

  The Commission did not have the time or staff resources to investigate the allegations in each of these submissions. Therefore, we are not in a position to confirm whether any unfairness or preferential treatment was given. Without having investigated these instances, we are also not prepared to reveal the nature of these complaints nor the names of the agencies which are involved.

  We have concluded that regardless of whether the existing tendering, leasing, and contracting procedures are appropriate, there is nevertheless a wide-spread perception that preferential treatment and political patronage has existed and that it may still exist under the present Government. It is, therefore, critical that an immediate review should be undertaken of the procedures for tendering, leasing, and the awarding of contracts by the Government and all of its agencies, particularly the large Crown corporations. It is important that these procedures should be made known to the public and that the Government should ensure that all future awards are made in a fair and very public manner.

Recommendation 4 - 1: **The Commission recommends that the Government should review its policies and procedures for tendering, leasing, and awarding of contracts by all agencies, including its Crown corporations. This review should include an opportunity for public consultation. The resulting policies and procedures should then be documented in a form against which the Government's actions on any award can be evaluated by the public for compliance.**

- Economic Development and Diversification

  Virtually all of the transactions which the Commission considered were motivated by economic development and diversification considerations. This theme has preoccupied successive provincial governments throughout Saskatchewan's history. We agree that our province's long-term prosperity depends upon expanding and broadening its economic base. However, all efforts in this regard should be undertaken in a co-ordinated and efficient manner.

  Also, it is necessary to balance the probability of success in these efforts against the cost. Over the past few years, the Province has invested heavily, largely through borrowed funds, and has made commitments to support, largely through loan guarantees, a variety of projects to diversify our economy. Most of the larger projects are now being adversely affected by poor international market conditions. As we note in chapter 3 of this report, several projects and the Government's associated investments need to be carefully and regularly monitored because they can have a significant detrimental effect on the Province's financial position. If international economic conditions do not improve or demonstrate the potential for an upturn in the near future, the Government will be forced to recognize significant write-downs and loss provisions on these investments.

  For the future, we believe that the Province must continue its efforts to strengthen and to diversify our economy. However, this must be done in an effective and efficient manner. Our examination of past transactions revealed considerable duplication of efforts among various government agencies, particularly in relation to the Department of Economic Diversification and Trade,

the Saskatchewan Economic Development Corporation, and the Crown Management Board (including its subsidiaries such as the Saskatchewan Diversification Corporation).

The previous Government attempted to rectify this duplication by establishing, in January 1990, a Project Co-ordination Unit within the Saskatchewan Diversification Corporation. Senior officials of fourteen Federal and Provincial agencies were brought together to share information on various economic development projects which are underway. Over 2,000 such projects were placed into a computerized data base which provides an information tool for co-ordinating the various economic development initiatives in Saskatchewan.

The establishment of this data base is commendable. It is worth maintaining, and perhaps expanding, to include other agencies that are involved in economic-development activities (e.g. municipalities). However, there still needs to be a rationalization of economic development responsibilities within the Provincial Government's structure. Over time, the Commission noted that responsibilities were being assigned to where the decisions could be made most expeditiously. Unfortunately, public accountability suffered.

Recommendation 4 - 2: **The Commission recommends that the Government should review the mandate and role of the various agencies which are currently involved in economic development and diversification initiatives.**

- Saskatchewan Economic Development Corporation

Particular attention should be given to the operations of the Saskatchewan Economic Development Corporation (SEDCO). We were very impressed by the quality of the staff and the processes which are in place to review applications for financial assistance. However, in order to achieve its corporate objectives and to provide a structure within which its directors can be held accountable for their actions, SEDCO needs to be refinanced and the roles and responsibilities of its board and officials vis-a-vis the Provincial Cabinet must be clarified.

A major problem is that SEDCO's current capital structure prevents the Corporation from ever returning to a profitable position -- and one in which the actions of its directors can be evaluated in a meaningful manner. According to Schedule 4 of the October 31, 1991, financial statements, the Corporation has an accumulated debt of $259 million. Its net deficit position on that date was $37 million which is the result of accumulated losses of $83 million, offset in part, by an equity advance of $56 million.

The Province records its investments or loans to SEDCO at cost, with a revaluation presumably occurring when it becomes evident that there has been a permanent reduction in the value of the investment. Any write-downs are charged to the Corporation's deficit. We have not been able to determine whether the Province has recorded a write-down on any of SEDCO's loans in the recent past. SEDCO's annual losses and deficits have been included in the Crown Management Board's consolidated financial statements.

SEDCO's weighted average cost of capital was 9.9% for the first nine months of 1991. The Corporation's overall return on its total assets during the same period was 6.7%. [2] Given its current level of capitalization, SEDCO will never earn sufficient income to repay its debt, unless it focuses solely on the commercial side of its mandate.

Presumably, some portion of the Corporation's accumulated deficit is related to economic diversification and development initiatives. (For example, the Corporation's losses on the loans for the Canapharm and Hunters transactions appear to be related more to economic development considerations, than to commercial lending.) In chapter 6 of this report, we propose that public-policy objectives, such as economic development and diversification, should be financed directly by the Consolidated Fund and therefore, SEDCO should be receiving annual appropriations from this Fund for this aspect of its mandate. Its directors will then be held directly accountable for managing, profitably, the Corporation's commercial lending activities. Its board (perhaps jointly with Cabinet) can take separate responsibility for the use of the appropriation for the Corporation's economic development and diversification activities.

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[2] Saskatchewan Economic Development Corporation, Internal Financial Statements.

A related issue which needs to be addressed by the Government is a refinancing of SEDCO's capital structure. A thorough analysis of the Corporation's accumulated debt should be undertaken to determine what portion can be attributed to economic development and diversification activities. The Corporation should then be relieved of the burden of this portion of its debt.

Recommendation 4 - 3: **The Commission recommends that SEDCO's capital structure should be reviewed, with particular consideration being given to the following issues:**

- **All portions of its current deficit position which can be attributed to economic development and diversification initiatives should be refinanced and therefore, should no longer be SEDCO's responsibility.**
- **All future public-policy initiatives within SEDCO should be valued and the cost should be financed by an appropriation from the Consolidated Fund.**
- **All of SEDCO's non-performing investments should be reviewed to determine the Corporation's future responsibility for and involvement in these operations.**

- Use of Special Funds

In chapter 6, we have made several recommendations which argue very strongly that the Consolidated Fund should be the central financial vehicle through which the Legislature is able to maintain its control over the Province's finances. All revenues should be paid into this Fund and no expenditures should be made from the Fund without the approval of the Legislature.

Over the years, special funds have been established for a variety of purposes. These funds can be useful for managing the financial affairs of commercially-

oriented activities where the revenues from users' charges are sufficient to cover the costs of providing certain services.

However, we feel that the Legislature's financial control can be jeopardized when revenues are paid directly to a fund whose purpose is to provide grants to individuals or organizations. If the ear-marked revenues were not available, such expenditures would have been budgetary in nature and would be subjected to the Legislature's review as part of its consideration of the Government's entire fiscal plan and priorities. We are not necessarily suggesting that such funds should be abolished; however, we strongly recommend that the revenues should be passing through the Consolidated Fund.

In chapter 6, we have recommended that the Heritage Fund should be abolished for the reasons which have been stated here. We have also recommended that all lottery revenues should be paid to the Consolidated Fund and that an appropriation to SaskSport should be separately considered by the Legislature.

Time constraints have prevented us from undertaking a thorough review of all of the special funds which now exist and which receive their funds directly from an external source, rather than from the Consolidated Fund. We, therefore, have identified this as a matter for further consideration by the Government.

Recommendation 4 - 4: **The Commission recommends that the Government should undertake a review of all special funds and that the continued existence of these funds, as well as the direct payment of any revenues to a fund other than the Consolidated Fund, should be justified to the Legislature.**

- Use of Private-Sector Auditors

We detected concern and confusion in some of the submissions about the role of private-sector auditors vis-a-vis the Provincial Auditor when the former have been appointed by the board of directors to provide audit opinions on the

financial affairs of a Crown corporation. We discussed this matter on several occasions with the Provincial Auditor and also reviewed the existing legislation.

Section 11 of The Provincial Auditor Act states that the Provincial Auditor is responsible to the Legislature for ensuring that the financial affairs of a government-owned entity have been properly recorded and accounted for. In performing this duty to the Legislature, the Provincial Auditor can rely on the work of a private-sector auditor; however, the Provincial Auditor must be satisfied that the private-sector auditor has reviewed the affairs of the entity in accordance with the type of review which is envisioned by The Provincial Auditor Act.

Both the Provincial Auditor and the private-sector auditors are responsible for issuing their audit reports to the Members of the Legislative Assembly. However, because the Provincial Auditor has more direct contact with the Members of the Legislature, and the private-sector auditors with the board of directors of the Crown corporations, there can be a difference in the approach and in the nature of the reporting which either the Provincial Auditor or the private-sector auditor takes in reviewing a government-owned entity. However, in our opinion, this is not an insurmountable problem. An on-going and close working relationship between the two parties is essential and ensures that there is no misunderstanding as to the requirements. Overall, the Commission does not oppose the use of private-sector auditors, particularly for the commercially-oriented Crown corporations where industry-specific expertise can be obtained from the private sector. Private-sector auditors, however, should only be appointed because of their expertise and not as a vehicle to prevent the Legislature from receiving the type of information that it needs to hold the elected and non-elected officials accountable for their management of a particular entity.

We, however, are concerned about the impression that appears to exist within some elements of the general public and among some Members of the Legislative Assembly that the use of private-sector auditors has compromised or reduced the ability of the Provincial Auditor to serve the Legislature. We suspect that one source of the confusion may be the manner in which The Provincial Auditor Act has been drafted. It is our understanding that this legislation was originally written to exclude certain entities from being reviewed

by the Provincial Auditor. Subsequently, this intention was reversed and the legislation was adjusted, but not fully rewritten, to reflect the current situation.

Recommendation 4 - 5:

The Commission recommends that The Provincial Auditor Act should be reviewed and, where necessary, amended to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private-sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private-sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.

CHAPTER 5 - THE COMMISSION'S REVIEW OF TRANSACTIONS AND COMMITMENTS: OBSERVATIONS AND CONCLUSIONS

Background

As requested in our terms of reference, the Commission utilized the second and third stages of its review of transactions and commitments to identify issues and recommendations for the Government's consideration. The more detailed reviews examined such matters as the definition and monitoring of the transaction's objectives, its impact on the Province's financial position, the degree to which its objectives were met, the stewardship of public resources, and the extent to which public-accountability criteria were satisfied.

During our review, we were able to identify certain issues pertaining to the financial decision making, management, and accountability processes which applied to more than one transaction. The Commission, therefore, felt that more would be gained by identifying these common elements to the Government, rather than reiterating the details of past events. Our purpose is to chart a path for the future and to recommend ways which will improve the management and accountability processes through which the Government can pursue opportunities to strengthen Saskatchewan's economy and finances.

Previous chapters of this report have already discussed how some of the past transactions have affected the Province's financial position. This chapter will identify some of the other themes which emerged in the course of our stage 2 and 3 reviews of these transactions.

Setting and Monitoring Business and Public-Policy Objectives

Performance can only be monitored and impartially evaluated if, at the outset, clear objectives have been established to articulate what is to be accomplished. Actual results can be compared to these objectives and a measure of success can then be determined.

For private enterprises, the process for articulating objectives and establishing mechanisms to measure progress towards their achievement can be complicated. This process is even more complex in the public sector where objectives may exist which go beyond ordinary business aims (e.g. profit, minimum exposure to financial

risk, efficiency) and which involve public-policy considerations (e.g. creating jobs, diversifying the economy, developing natural resources, promoting economic activity in rural communities).

It is entirely legitimate for public-sector entities to participate in transactions which serve public-policy objectives. Such objectives are, in fact, the raison d'être for a government's participation. When public-policy considerations are part of the rationale for the Government's involvement in a transaction, it becomes more, rather than less, important to identify and to priorize all of the objectives.

Our review of recent transactions has revealed that the Government rarely articulated in an organized or precise way the public-policy objectives behind its actions. As a result, there is a tendency to evaluate these transactions only from a financial and a business orientation.

The following are some examples of transactions where, we believe, public-policy objectives were involved in the decision to proceed with the transaction, but were not documented for subsequent evaluation:

- The 1986 sale of the Prince Albert Pulp Mill Company Ltd. to Weyerhaeuser Canada Ltd. was undertaken at a time when pulp prices were low and the company was recording losses. Some were arguing that a provincially-owned corporation could not mount the same marketing efforts as its major multi-national competitors. Others argued that in order to maintain the longer-term viability of the mill and the Province's timber resources, a fully-integrated pulp and paper processing facility needed to be created. We could not determine from the documentation that we reviewed whether these or other considerations were decisive in the final determination that this operation should be privatized.

  It is impossible to evaluate whether the sale of the Prince Albert Pulp Mill achieved the intended benefits. The industry has internationally faced some difficult times since the privatization took place. It would, therefore, be unfair to use the company's current financial situation as a measure of the success or failure of this transaction. (The Province has not yet received any payments for the sale of these assets.

$53.5 million was received in 1988, but this was interest on a $236.6 million income debenture and not a payment of the principal amount.)

In order to evaluate fairly the privatization of the mill, it is necessary to understand the circumstances and expectations in 1986 under which the decision was made to proceed. Otherwise, the evaluation will not be fair to those who made the original decision. Whenever economic and market conditions affect the outcome of a transaction, it is important to examine the information and circumstances that were known to the decision-makers and to ensure that, at that time, the information-gathering process was thorough and the analysis was reasonable.

- We were able to identify some documented rationale and objectives for creating the Saskatchewan Property Management Corporation (SPMC). Most of the objectives are oriented towards accounting policy and procedures and within this perspective, the Corporation has had some success in meeting them.

  However, they do not address the more fundamental question of why it is important to accommodate such accounting policies and procedures within a Crown corporation, rather than a government department. Also, why weren't the common activities in all government entities (and not just government departments) consolidated within the SPMC? For example, even though the new Corporation had responsibility for centralizing the government's purchasing functions, many Crown corporations and departments retained purchasing units within their structures.

  Upon questioning various officials, the Commission was advised that some functions were initially assigned to SPMC because the Government wanted the Corporation established quickly to serve a property-management function. There wasn't sufficient time to examine organizational alternatives for the other functions, such as procurement and the provision of various central services. However, this allocation of functions occurred in 1987 and, to our knowledge, no subsequent action was taken to rationalize and perhaps adjust the original decision.

In light of the limited time which was available to the Commission, we have not been able to address adequately the structure of the Saskatchewan Property Management Corporation, specifically whether all or some of the responsibilities should more appropriately be provided through a departmental structure. Nevertheless, we feel that this matter should be the subject of a special and separate review. In particular, attention needs to be given to the duplication of activities between SPMC and various departments and Crown corporations. The Corporation's present structure may be relevant if further consolidation of responsibilities take place.

- The formation of Westbridge Computer Company involved the merger of assets owned by the Saskatchewan Computer Utility Corporation (SaskComp) and certain divisions of SaskTel with the assets of two private companies. The objectives for this merger were summed up as the achievement of "synergies" among the various components that would create the new company. However, we were not able to clarify, through documentation, the nature and significance of the "synergies" and how it would be possible to measure the achievement of this objective.

  Of particular note is the decision to include Mercury Graphics Corporation in the initial merger. This was a printing company that produced such products as tickets for sporting events and boarding passes for airlines. We, and others whom we interviewed, were unable to explain how a synergy could be achieved between this printing operation and the new company's computer operations. This unexplained synergy was eventually clarified when, within two years of the acquisition, Westbridge sold the printing operation to its employees. Clearly-stated objectives at the time of the merger may have placed greater rigor in defining how Mercury Graphics integrated with the company's other components.

On the other hand, we identified the Province's investment in the Saskferco fertilizer plant and the privatization of the Prairie Malt plant as transactions where clear business and public-policy objectives were documented as part of the decision to proceed:

- The objectives in the Saskferco project included providing an expanded Saskatchewan market for natural gas and lowering the prices of fertilizer for Saskatchewan's farmers. Due to the size of the plant, a large portion of its production would be available for export. Critics have argued that the additional production capacity associated with the new plant will reduce fertilizer prices by as much as 25%. Since lowering these prices was one of its stated objectives, it appears that, in this regard, this transaction will be a success.

- The objectives in the privatization of Prairie Malt Ltd. were documented and therefore, the transaction can now be evaluated. The objectives included receiving a price which is in line with the plant's externally-evaluated value, obtaining a commitment to expand the current facility, furthering the principles of the Buy Saskatchewan policies, and providing for the participation and protection of the employees. The sale occurred at the recommended price; the plant was expanded by the new owners; 49% of the plant was purchased by and a barley supply agreement was signed with the Saskatchewan Wheat Pool. Finally, employees had an opportunity to purchase up to 24% of the company's equity through a share purchase plan.

In light of these examples, we reiterate our view that all future transactions and commitments should not proceed until both the business and public-policy objectives have been documented, as well as their relative importance and the criteria against which they will be monitored in combination with the other objectives that will be pursued. The performance of the transaction should then be regularly evaluated against these objectives. If this evaluation takes place in a timely fashion and if sufficient flexibility exists, adjustments can be made to respond to changing market or economic circumstances.

Recommendation 5 - 1: **The Commission recommends that a separate study should be undertaken concerning whether any or all of the activities and responsibilities of the Saskatchewan Property Management Corporation should more appropriately be undertaken within government departments, instead of through a Crown corporation.**

Obtaining Complete Financial Analyses

In order to serve business and public-policy objectives at the same time, the transactions undertaken by the government can be very complex -- both organizationally and financially. Obviously, no government should be making any commitments concerning present or future public funds until the implications and the proposals' risks have been fully researched and are understood by the decision-makers.

During its review, the Commission found several examples where the Government entered into transactions or commitments without having undertaken a full and complete financial analysis. While such an analysis might have occurred after the deal had been struck, the significance of having proceeded into the negotiations and having made a decision without undertaking such analysis cannot be overstated.

We identified transactions where members of the Cabinet were involved directly in the negotiations and did not appear to have received (or have requested) detailed analyses of the alternatives that were being discussed. Because they are custodians of the public purse, all members of the Government have a responsibility to the taxpayers to ensure that financial decisions are being made in a prudent and responsible manner. This does not mean that opportunities should not be pursued and that risks should not be taken. Rather, it means that decisions should be made with the full knowledge of the potential "down side" if the expectations are not achieved. While government employees are often capable of providing this type of analysis, there are circumstances where it is necessary to obtain the services of qualified, external analysts whose work will not be subject to political influences.

We do not quarrel with entering into risky transactions which, if successful, could yield considerable job-creation and economic diversification benefits for Saskatchewan. Our concern is when these transactions are decided without a full understanding of the implications of such risks. These situations jeopardize the trust that taxpayers place in their governments to manage the fiscal affairs of the Province.

The following are some examples of transactions where, according to the information which was made available to us, it appears that decisions were made without having fully analyzed the financial implications:

- Our review of the documentation concerning the Crown Management Board's investment in GigaText Translation Systems Ltd. revealed that the original analysis and recommendations were prepared by a Cabinet Minister and a member of the Board, with little or no involvement by the staff of the Crown Management Board or of the Saskatchewan Economic Development Corporation. We were unable to confirm whether a business plan or supporting budget had been prepared for analytical purposes. An adequate up-front assessment of the financial risk involved in this project did not appear to exist.

- The financing of Flexi-Coil from the Saskatchewan Government Growth Fund was negotiated by a Cabinet Minister and senior staff of the former Department of Trade and Investment under procedural criteria that seemed to focus on "keeping government red tape to a minimum". To our knowledge, an independent review was not undertaken. The decision was made to use the funds of the Growth Fund even before any units had been sold; SEDCO ultimately provided the bridge financing.

On the other hand, we identified the following transactions where a full and proper analysis was carried out:

- The documentation on the Saskferco project in Belle Plain indicates that this transaction was handled in a very business-like manner by the Province. Administrative officials of the Crown Management Board were (and still are) very actively involved in this project. An outside consultant was employed by the Province to provide professional advice and assistance.

- We were impressed by the amount of analysis and review that went into the Province's decision to support the Gainers plant in North Battleford.

Ensuring that Investments are Properly Managed

After a decision has been made by the Government to participate in a project or to undertake an investment, procedures must be put into place to manage the Province's interests to ensure that its original objectives are being pursued. Where there is significant financial exposure, on-going management of the investment is a critical responsibility of the Government.

Proper post-investment management procedures include ensuring that the Government's original objectives are well-documented, that complete and up-to-date financial information and management reports are being provided on a regular and timely basis, and that knowledgeable individuals have been assigned to monitor the performance and to alert the Government if the Province's interests are in jeopardy. In several instances, we noted that the Province has taken a relatively passive role in the management of certain projects and that it has chosen to rely on the expertise and background of its commercial partners. The difficulty with this approach is that the partners' primary interest is in protecting their investment and their commitment to protecting the Government's investment may only extend as far as the objectives of the two parties coincide. When substantial amounts of Government funds are involved, we believe that it is irresponsible for the Government to rely on its partners to look after the Province's interests.

Our review revealed the following instances where, in our opinion, the Government's post-investment management procedures were incomplete or inadequate:

- The Province's initial investment in GigaText occurred through the Crown Management Board. It appeared that the Crown Management Board intended to monitor its investment in this project primarily through the board of directors of GigaText.

  Over a seven-month period, the Crown Management Board contributed $4.4 million to GigaText which was used largely for capital expenditures. However, at no time during this period did the Board receive any financial reports on the project. Unfortunately, there is also no evidence in the minutes of their meetings that the directors of GigaText were dealing with monitoring issues either. The company's accounting systems were inadequate and financial statements were not produced during the project's start-up period. We were also surprised to learn that sole cheque-signing authority during this period had been assigned to a single individual -- the project's promoter.

- SEDCO first became involved with Westank Industries Limited in the late 1970s. Since 1980, Westank has continually operated at a loss. To September 30, 1991, these losses have accumulated to about $28 million. The Commission has been advised that these losses have

been due to poor economic conditions and increased competitions which have resulted in reduced margins.

Since 1984, SEDCO has been the sole owner of Westank and is operating the company and providing financial assistance in various forms. The Commission estimates that SEDCO's current financial exposure in this company is $28.5 million; recently there has been a request for further financing of $2.6 million.

The Commission appreciates that approximately 65 jobs are at stake in this operation. However, the financing which has been given to Westank over the years appears to have been motivated strictly from the perspective of retaining these jobs, rather than from the perspective of determining whether this company is viable to overcome its persistent losses. The Government needs to confirm whether job retention is a primary objective for the Province's financial support for Westank and whether SEDCO's mandate justifies providing continued operational and financial support for this company. SEDCO's role in Westank is now being challenged by its previous owner, who has charged that the Province's continued financial support is tantamount to using public funds to compete unfairly with the private sector.

- The on-going management of the Province's investment in the NewGrade heavy-oil upgrader has been complicated by the fact that this facility operates, through a management agreement, as an integrated unit with Consumer Co-operative Refineries Ltd.'s oil refinery in Regina. At present, the Province has an investment which is not performing up to its original expectations and which could hold future financial risk. Because of the management agreement, NewGrade has no employees responsible for looking after the project's interests. Consumer Co-operative Refineries Ltd. (CCRL) is therefore totally in control because its employees operate and manage the plant, but remain responsible and accountable to the Co-operative. The Province's ability to monitor the performance of this project and to work with its joint-venture partner (CCRL) to reduce its financial exposure is severely restricted under the agreement. It is, therefore, not actively involved in the operations and management of the project and on NewGrade's board, a strained relationship appears to have developed between the two parties.

- As has been noted in chapter 3, the Province's share of the capital cost of constructing the Rafferty and Alameda dams is now estimated to have increased from $42.5 million to $155.1 million. The Saskatchewan Water Corporation has, in our opinion, been made inappropriately the agency through which the Province will finance the cost. At the same time, the Souris Basin Development Authority has been assigned responsibility for co-ordinating and managing the design and construction of the project. The Authority's directors have been entirely composed of residents of the area in which the dams will be constructed and of officials from the Saskatchewan Power Corporation. There is no representation on the Authority's board from the Saskatchewan Water Corporation, from the Crown Management Board, or from the Department of Finance -- all of which have an interest or responsibility in the financing of this project. As a result of this structure, no one on this Authority's board has a direct interest in the financial implications of any cost over-runs.

Clarifying the Relative Roles of the Politicians, Directors, and Employees

Elected officials are the ultimate decision makers in a parliamentary system of government. They, in turn, should rely on their support staff for the advice and analysis which is necessary to make these decisions.

This does not mean that the politicians must always agree with or take the advice of their administrative staff. There could be good business, social, and political reasons for Cabinet's decision to approve, for example, a grant or loan for a particular project, even though the administrators have recommended against such action. This difference of opinion can legitimately occur because the administrators have focused their recommendation primarily on business or administrative considerations and unlike the politicians, have given secondary weight to rural-development, economic-diversification or job-creation issues. However, if these latter factors are not documented as part of the rationale for Cabinet's decision, it is not possible to assess, after the fact, whether the project accomplished its objectives.

Documenting the politicians' priorities also helps the administrators to understand what factors are important to the Government. It also will likely reduce

management's frustration when its recommendations or decisions are overturned in what might be perceived, because of a lack of explanation, to be an arbitrary action.

In summary, administrators have a responsibility to provide accurate and complete information and analysis which can be used for decision-making purposes. Elected officials are not necessarily bound by this advice, but they must ensure that their decisions are not made in an arbitrary manner; for this reason, they must be prepared to account for their decisions, particularly in those situations when other factors have led them not to follow the recommendations of their advisors or have caused them to overturn a decision of the directors of a government agency.

The following are some examples where we have concluded that the principles which we have outlined were not followed:

- With respect to the Province's financial support to the Canapharm project in Wolseley, the initial start-up financing, eight subsequent loans, a consolidation, and two conversions from debt to equity, were approved by Cabinet, after SEDCO's management did not provide recommendations in support of such actions. We reviewed the documentation which Cabinet used to make its decisions. We felt that the information which was provided concerning the financial implications and risks was inadequate. We were not able to ascertain who prepared the documents and no reference was made to SEDCO's position on these matters.

  In 1991, SEDCO sold Canapharm's assets to Abbott Laboratories Limited. To that date, the Province's investment, by way of equity and loans, totalled approximately $6 million; ultimately, SEDCO incurred a loss of $4 million.

- The timing of the sale of the Province's shares in the Potash Corporation of Saskatchewan was contrary to the advice provided by the Crown Management Board's external advisors (whose evaluation used an earnings-capitalization methodology). Unless an argument is mounted that the assets of the company were overstated, we have concluded that the timing of the issue resulted in a loss to the Province. We were unable to find any documentation to support the Government's reasons for overriding the recommendations of its advisors. Accordingly, it is not possible to determine whether the objectives which the politicians felt were of paramount concern in proceeding at that time were accomplished.

- The decision to provide loans to Hunters Manufacturing Ltd., through SEDCO, was another instance both of overriding management's recommendations without explanation and of having inadequate information provided to Cabinet. SEDCO's officials were approached in 1986 by the Corporation's Minister to provide start-up financial assistance to this company. The administrators recommended against such action for strictly commercial reasons. However, the Minister directed them to proceed with the loan, but gave no reasons (at least, none that we were able to find documented) for this decision. Subsequently, additional financing (loans, guarantees, leases, and purchase/leasebacks) was approved.

  As of May 31, 1991, SEDCO's financial exposure with respect to Hunters Manufacturing Limited is $10.8 million. The company has faced losses in 1989 and subsequent years. A refinancing and reorganization strategy was put in place during the summer of 1991.

  In our opinion (and without any documentation to support a contrary view), after their initial assessment of this project in 1986, the advice of SEDCO's administrators on Hunters Manufacturing Ltd. was no longer being considered. SEDCO simply became a conduit to facilitate the Government's support for this company. A more serious consideration is that one of the directors on SEDCO's board became an advocate for this company and appears to have been advising the Corporation's Minister directly on what action should be taken.

Providing Clear and Adequate Authorization

Effective financial-management systems ensure that no transaction can occur without being authorized. When public funds are spent, it is especially important that clear and adequate authority exists before any transaction proceeds. The transaction is being conducted by the government's officials on behalf of the people of the province -- as instructed by their elected representatives, either directly or through a clear delegation of responsibility.

Various mechanisms exist to effect such authorization. In some instances, the Legislature will assign responsibility through statutes for making decisions or carrying out policies. In others, there will be a delegation of power from the Legislature,

through the executive government, to the appropriate officials or organizations. The systems through which authority is obtained to take a particular action may be elaborate and clearly laid out for some circumstances and may be more informal for others.

In any case, we believe that whenever a transaction involving public funds has taken place, the principles of effective financial management require that the source and legitimacy of the authority for this action must be clearly identified. Our review of various recent transactions disclosed a number of circumstances where this principle was not adhered to.

- Interpreting Existing Legislation to Avoid Disclosure

  The primary source of legitimacy for all government actions is legislation which lays out general principles or guidelines for action or addresses specific situations. The Financial Administration Act, for example, specifies the basic framework for authorizing and monitoring the expenditure of public funds and centralizes the control of the Province's overall financial management within the office of the Minister of Finance.

  At the same time, The Community Bond Act and The NewGrade Energy Inc. Act spell out the terms for conducting two specific government initiatives. Among other things, these statutes specify the conditions under which the Minister of Finance will approve a guarantee, as required under Section 41 of The Financial Administration Act. In these circumstances, the various pieces of legislation provide consistency to the principle of centralizing the control of the Province's finances with the Minster of Finance.

  However, under The Industry and Commerce Development Act, the Minister who administers this Act has the authority to enter into guarantees to assist "business enterprises". The purpose of this statute, which has been in place since the 1970s, is obscure, but one of its significant features is that these guarantees can be provided without the approval of the Legislature or of Cabinet. By designating the Minister of Finance as a "minister responsible" under this Act, the previous Government was able to achieve technical compliance with the general provisions of The Financial Administration Act and to proceed to authorize guarantees without public disclosure through a request to the Legislature or an Order-in-Council. Our investigations revealed that the

Government used this vehicle, rather than legislative enactments as occurred for the NewGrade project, to approve loan guarantees amounting to $267.6 million for the Saskferco transaction and $355.0 million for the HARO (Crown Life) transaction.

Whatever the objectives which lay behind the provisions of The Industry and Commerce Development Act and whether or not there was technical compliance with these statutes, we find it disturbing to see actions, involving considerable amounts of money, being concluded under procedures chosen, apparently, to avoid disclosure to the public through the Legislature. We are particularly concerned that the Minister of Finance is able to approve, solely on his own signature, loan guarantees of this size. Unlike the other statutes which have explicitly-stated dollar limits and which require Cabinet's approval by an Order-in-Council -- and consequent disclosure -- beyond a certain level, this Act provides an opportunity for members of the Province's executive government to approve significant financial transactions and to avoid the more exacting standards of disclosure or authorization which exist in other statutes.

We do not believe that the provisions of The Industry and Commerce Development Act were intended for this purpose. We feel that while the previous Government adhered to the letter of the law, it did not act within the spirit of the law. We question whether the process by which the authorization was given under this Act for the Saskferco and HARO guarantees is consistent with the expectations of the Legislature concerning the approval and disclosure of such financial commitments, particularly commitments of this size.

Recommendation 5 - 2: **The Commission recommends that the provisions of The Industry and Commerce Development Act concerning the approval process for loan guarantees should be repealed or, at least, be brought into conformity with the provisions which exist in The Financial Administration Act for the authorization of such guarantees.**

Another example of interpreting legislation in order to avoid disclosure is the procedures for guaranteeing debt under section 47 of The Power Corporation Act. This Act allows the Government to enter into guarantees by means of an Order-in-Council. However, Cabinet's disclosure obligations are "permissive"

in nature and have been interpreted as requiring only an indication, in the Order-in-Council, that the Province has entered into a specific guarantee, without specifying the extent of the Province's exposure. A practice has developed where the Order-in-Council refers to the associated guarantee agreement which has been filed separately with the Clerk of the Executive Council as a confidential document that is protected by legislative privilege.

The Government's ability to authorize guarantees through confidential documents is inconsistent with its obligations of accountability to the public. Although guarantees do not involve the same kind of immediate outlay of money as loans or grants, they nevertheless create the potential for future financial obligation. In addition to disclosing the amount of guarantees and the conditions under which they have been entered, reasonable standards of accountability should require governments to provide an analysis of the degree of financial risk that is involved. Without an understanding of the full range of such outstanding commitments, the Legislature and the public are unable to make informed and intelligent assessments of the Province's financial outlook.

A further example of the questionable use of legislative authority came to light during our review of various transactions of the Saskatchewan Economic Development Corporation. There is a legislated cap on the total amount that SEDCO can borrow under The Industrial Development Act to finance its operations (i.e. to have funds which it can then loan out to private-sector businesses). When this limit was reached in 1991, the Crown Management Board provided $6 million in additional funds to SEDCO through equity advances. Through a technical interpretation of the legislation, SEDCO was, and still is, able to undertake its loan and economic development activities even though it has reached the maximum level of the financial authority which was granted to it by the Legislature.

From our review of transactions, we have formed the strong opinion that the onus must be placed on the Government to demonstrate that it has adequate authority to proceed with a transaction without the approval of the Legislature. As part of the supporting documentation for such actions, the Government should clearly consider and disclose its conclusion as to how it derived this authority, what the legislation which is being used contemplates as the appropriate standards for approval and disclosure, and how the Government will meet these standards.

- Obtaining Authorization Retroactively

In our view, transactions should occur in a manner whereby the authorization is obtained prospectively, rather than retroactively. The manipulation of the authorization requirements in order to construct technical compliance, after the fact, does not lay a sufficient foundation for legitimate authority.

One example which we discovered was the use of the Saskatchewan Government Growth Fund. This Fund was established in 1989 under the Federal Government's Immigrant Investor Program. It provides a vehicle for foreign investors to finance businesses in Saskatchewan and have this considered as one of the factors to support an application for permanent residency in Canada.

As part of the Government's financial assistance to Flexi-Coil, the Minister and officials of the Department of Trade and Investment verbally arranged for a $10 million loan from the Saskatchewan Government Growth Fund prior to the Fund being sold and before the Fund even had a board of directors in place to consider the appropriateness of the investment. As an after-the-fact arrangement to address the financing deficiency, SEDCO was brought into the transaction to provide the bridge financing, including a subsidized interest rate. Cabinet's approval of SEDCO's interim financing was obtained through a "minute" rather than an Order-in-Council which provides less public disclosure. This approach was specifically on Cabinet's instruction "that a means be found to document the approval that did not involve an Order-in-Council".

After the closure of its offering, the Growth Fund took over SEDCO's principal and interest position on the loan to Flexi-Coil. The Fund paid SEDCO approximately $11 million. Interest continues to be capitalized (in accordance with the loan agreement) and the balance is now $12 million. This amount currently represents 68% of the total portfolio of the Saskatchewan Government Growth Fund. The Fund has taken on this level of exposure in one investment without its own independent valuation of the financial exposure which this decision will have on the returns which it can provide to its investors.

Another example where approval was obtained retroactively for a major financial commitment by the Province was the $1 billion in loans which were

provided to farmers in 1986. This program was announced by the Government when the Legislature was not in session. The Department of Finance provided the Agricultural Credit Corporation with the initial funding for this program through a special warrant. Later, this amount was converted into long-term debt and reported to the Legislature as a non-budgetary advance in the 1985-86 Supplementary Estimates.

We are not questioning the appropriateness of the program, but we wonder why the $1 billion financial commitment was not considered to be significant enough to require calling the Legislature into a special session for its up-front approval. The implications of this one-time program on the Province's financial position are still being felt. A significant number of the loans remain outstanding and the repayment terms have been extended. In addition, the Agricultural Credit Corporation's financial statements have included provisions for losses on these loans.

Recommendation 5 - 3: **The Commission recommends that the Government should enact legislation concerning the amount of public funds that can be committed to a project or program without the prior approval of the Legislature.**

- Failing to Comply with Established Processes and Policies

In some cases, authority to proceed with a transaction can legitimately be claimed on the basis of policies or guidelines formulated by an appropriate entity or official. For example, with SEDCO or the Crown Management Board, their boards of directors may establish policies to guide their officials in carrying out certain objectives. These organizations may, in turn, be guided by policy directives or specified directives from Cabinet or the Minister charged with supervising their work.

Clearly, such policies are different than statutory enactments. Nevertheless, they may be a source of legitimacy for particular decisions or actions in that they give information about the objectives and rules that form the context for a particular transaction.

In the Flexi-Coil transaction, the Saskatchewan Government Growth Fund's confidential offering memorandum (dated January 15, 1989) stated that "no investment by the Fund will be made in a business with total assets exceeding $35 million (including the assets of associated or related companies) or such other amount as may be allowed by the Regulations pursuant to The Immigration Act of Canada from time to time". At the time of the initial investment, Flexi-Coil's total assets exceeded this amount. SEDCO's management advised us that the Government was aware of this situation; however, it concluded that the investment complied with the terms of the offering memorandum for the following reasons:

1. The $35 million was not incorporated as part of the Federal Government's regulations. (This limit has, subsequently, been incorporated.)

2. Because a company's total assets will fluctuate during a year, it was decided that Flexi-Coil was only marginally not in compliance with the investment criteria.

These explanations are troubling because they attempt, after the fact, to justify taking action which is contrary to the conditions which were documented in the offering memorandum. While we do not expect that there should always be rigid compliance with policy statements and guidelines, the decision to deviate from these conditions, along with the rationale for taking such action, should be publicly disclosed in a timely fashion. Such disclosure is essential when public funds are involved and should be absolutely necessary in situations such as the Saskatchewan Government Growth Fund where the Government is responsible for the funds of others. The Cabinet acted irresponsibly and inappropriately when it decided to allocate money which had not yet been received and for which they have trusteeship responsibilities in order to advance their public-policy agenda.

- Abusing Executive Discretion

In any decision-making process, those who are authorized to make decisions must have some flexibility and some capacity to translate policy, legislation or instructions into action. In a parliamentary structure, the Legislature delegates to the executive government extensive scope to make decisions in accordance

with the legislation which has been agreed to. The proper exercise of this discretion requires that those making the decisions must demonstrate an awareness not only of its extensiveness, but also of its limits. Discretion is not conferred absolutely, but it must be exercised in compliance with standards of proper procedure and accountability.

An abuse of executive authority occurs when members of the executive government use their power to make off-budget expenditures and commitments which should be provided for in the budgetary estimates. The use of this power is appropriate in certain limited circumstances, but it should not be used in a way which undermines public accountability or impairs the capacity of members of the Legislature to appreciate fully the extent of government financial commitments. Two examples demonstrate our concerns, both of which involve the Crown Management Board's CIC Industrial Interests Inc. (CIC III).

The Saskatchewan Diversification Corporation was established through The Business Corporations Act as a wholly-owned subsidiary of the CIC III. While not part of its original mandate, the Corporation began in 1990-91 to use excess funds in its operating budget to invest in various enterprises -- solely on the basis of decisions made by its board of directors (all of whom were Cabinet Ministers). Since that time, the Corporation has entered into almost $7 million of investments and loan guarantees. To date, the selection criteria and the Province's financial exposure associated with this support has not been approved by or disclosed to the Legislature.

The second example involves the Millar Western Pulp Mill where through equity investments, debentures and loans, and an infrastructure grant, CIC III provided $251 million, or approximately two-thirds of the financing for this project. Again, this investment was provided without the approval of the Legislature and has been financed through funds which could be accessed by the Government from within the Crown Management Board.

The Commission is very concerned about the accountability of the Government to the public if it is able to draw upon funds within the Crown Management Board and make substantial loans and investments without the Legislature's knowledge or approval. A series of recommendations in chapter 6 of this report attempt to address this concern.

Fully Disclosing the Financial Implications Associated with a Transaction

We have previously expressed concern about certain situations where public monies have been committed without obtaining the appropriate authority. A related issue is whether, as part of the disclosure of a commitment of public funds, the full extent of the financial exposure for the Province has been revealed.

For many of the transactions that we examined, we observed a conflict between the Government's obligations as stewards of the public's resources and its desire to negotiate in a manner and within a timeframe which is responsive to the private sector's expectations and practices. The extent of this conflict depends on the Government's anticipated role in the transaction. For example, there may be a difference in the behaviour that is appropriate when the government negotiates the acquisition of assets over which it will have full administrative and financial control and the behaviour when its investment involves a modest infusion of funds into a business with primarily private-sector equity.

However, in the interests of achieving effective financial management of the public purse, it is important not to lose sight of the obligation which underlies a government's participation in activities of any kind -- that is, its obligation to account for the expenditure of the public's resources. Regardless of how circumstances might justify the use of certain negotiating procedures in order to respond to various investment opportunities, these procedures should not circumvent the fundamental obligation that governments have to disclose publicly, and in a complete and timely fashion, the nature and extent of all transactions and commitments.

By not explicitly identifying the underlying public-policy objectives, some recent transactions have been structured to serve primarily the business objectives. For example, the CIC Industrial Interests Inc. was used as a vehicle to finance the Province's involvement in the Millar Western Pulp Mill.

The danger of this business orientation for public accountability is demonstrated in certain transactions which we reviewed. For example, the Commission found several circumstances where the Government entered into agreements with confidentiality provisions (e.g. HARO Financial Corporation, NewGrade Energy Inc., and Saskferco Products Ltd.). These provisions specifically prevent the Government from revealing to the public certain aspects of the agreements, unless there are

legislative requirements which force the disclosure (e.g. The Public Inquiries Act). While confidentiality requirements may be justified in the business world for competitive reasons, such practices must not automatically be applied when public funds are involved. At the very least, there must be a full justification to the public as to why a transaction can be jeopardized if all of the financial circumstances (particularly as they apply to the Province's financial exposure) are fully disclosed.

The repeated use of the CIC Industrial Interests Inc. as a vehicle to undertake transactions is, to us, a significant signal that there was an orientation within the previous Government towards avoiding public disclosure. The Saskatchewan Diversification Corporation was established as a subsidiary of CIC III, even though its activities have more in common with the responsibilities of government departments. This Corporation was responsible for the Community Bond Program, the Buy Saskatchewan Agency, the Project Co-ordination Unit (for co-ordinating public-sector initiatives in economic development and diversification), and various equity and loan-guarantee investments in private-sector companies. Under a government-department structure, full accountability and disclosure of these activities would be achieved through budgetary appropriations approved by the Legislature. A corporate structure, on the other hand, allowed funds within the Crown Management Board to be diverted to the Saskatchewan Diversification Corporation without such involvement by the Legislature and without the need to provide full and timely reporting on the effect that this Corporation's activities were having on the Province's financial position.

We also discovered circumstances where the financial implications of a transaction involved a commitment to forego revenues. In all of the instances which we examined, the impact of giving up these revenues on the Province's current and future fiscal position was not reported to the Legislature or, for that matter, to the public:

- The decision to grant a three-year franchise to the Friends of the Riders for distributing the Liquor Board's inventory to certain licensees was initially justified as a means of taking advantage of a one-time rebate on the Federal Sales Tax. However, the payment of commissions in subsequent periods to this particular franchisee represents a foregone revenue to the Liquor Board and, therefore, to the Government. The question which the Commission has been unable to answer (from the available documentation) is whether this franchise arrangement is strictly a good business deal for the Liquor Board or a way of providing preferential treatment in assisting a particular community

organization to address its financial problems. The latter reason, if valid and if the transaction has adversely affected the Liquor Board's financial position, should more appropriately have been addressed through a budgetary expenditure.

- We have become aware of a confidential agreement where the Provincial Government reduced certain provincial taxation requirements on its private-sector partner in a specific transaction. This action involves foregoing future revenues of the Province as part of an undisclosed component of the Province's contribution towards the transaction. We strongly question how a government can reduce the obligations of a particular taxpayer without making this action known to the public. As well, this action is a tax expenditure which, had it taken the form of a grant, should have been reported to the Legislature. While we considered providing the details of this agreement in our report, the Commission decided that the full implications of lifting the confidentiality conditions on this matter should first be reviewed by the new Government. Accordingly, we have forwarded our research on this matter to the Department of Justice for consideration.

Similar to foregoing revenues are transactions where as part of its financial contribution, the Government agrees to purchase goods or services for a period into the future. For example, as part of the Province's agreement to sell certain assets to Westbridge Computer Corporation, SaskTel's internal computer processing requirements were to be fulfilled by the new Corporation under a facilities management agreement. Through this agreement, Westbridge would receive revenues from SaskTel of approximately $100 million over a five year period. We understand that Westbridge also has facilities management agreements with other government departments and agencies. There is no documented evidence to suggest whether the compensation being paid to Westbridge under these agreements is fair or unfair. Nevertheless, our conclusions are two-fold. First, in any transaction where the Province's contribution includes a facilities management agreement or other similar procurement arrangement, the full-term financial implications should be included as part of the Government's public disclosure of the transaction. Second, these types of agreements are, in our opinion, inconsistent with government procurement practices where competitive pricing and independent evaluation criteria are essential components of ensuring the cost-effective delivery of programs and services.

In summary, we are not suggesting in the preceding examples that the terms of the agreements were not in the best interests of the Province. They may well have been critical factors in achieving certain financial, economic, or other objectives. Our concern, rather, is that these objectives should never be used to obscure the Government's primary obligation of reporting fully, candidly, and promptly to the public and to the Legislature on the extent to which its decisions have exposed the Province to current and future financial commitments or risks.

Making Organizational Decisions for the Sake of Effectiveness and Efficiency

Decisions on the appropriate organizational structure for delivering and managing programs and services should be made in order to maximize efficiency and effectiveness. Functions should be consolidated or centralized if duplication and waste can be eliminated. Separate entities can be established in order to recognize and establish specific objectives for functions that are commercial in nature or which are being managed on a break-even or profit-generating basis.

However, our review has revealed many examples of organizational restructuring which have provided a vehicle, either deliberately or incidentally, for avoiding or delaying the disclosure of certain activities to the public. The most blatant examples involve commercial Crown corporations where the non-disclosure of certain activities has been historically justified for "competitive reasons". However, we feel that this justification has been stretched too thinly, particularly when most of Saskatchewan's Crown corporations operate with little direct competitive pressure. Unless a strong argument can be made that market forces can be influenced by the release of information on specific matters pertaining to the operations of a Crown corporation, we see no reason why the principles and practices of disclosure and accountability should differ between Crown corporations and government departments.

In other sections of this chapter, we have already discussed examples where the reorganization of certain functions under a corporate structure had a significant impact on the Government's accountability of these functions to the public. The most notable are the Saskatchewan Property Management Corporation (which was largely created out of the former Department of Supply and Services) and the Saskatchewan Diversification Corporation (which performed certain functions that could have been assigned to the Department of Economic Diversification and Trade). Two other examples are:

- SaskEnergy Holdings Ltd. was established in 1988 under The Business Corporations Act; the same Act was used to incorporate each of its wholly-owned subsidiaries -- SaskEnergy Incorporated (formerly Provincial Gas Limited), Trans Gas Limited, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, and the latter's wholly-owned subsidiary, Many Islands Natural Gas (Canada) Limited. There are regulatory reasons for maintaining the last two subsidiaries as separate corporations. However, the fact remains that as a result of this action, SaskEnergy is not subject to the same financial reporting requirements as exist for other Crown corporations. SaskEnergy's annual year end financial statements are prepared and included in the consolidated financial statements which the Crown Management Board releases for public review. The Corporation under its current status does not have to file its own separate statements with the Legislature.

  As a result, the public has not seen any financial statements concerning the operations of SaskEnergy since December 31, 1988. At the same time, neither SaskEnergy's board, the directors of the Crown Management Board, or the Provincial Cabinet felt any obligation to release, voluntarily, this information to the public. The only vehicle available for the public to obtain these statements is for the Public Accounts Committee to specifically request to see them.

  The incorporation of SaskEnergy Holdings Ltd. and its subsidiaries was undertaken to separate the natural gas operations from the electrical operations of SaskPower (a decision which was made for what appear to be appropriate management and financing reasons). It was also done in order to set the stage for the privatization of the natural gas operation (a matter on which, as a Commission, we have no philosophical position to advocate in this report). In light of the current Government's opposition to such a privatization measure, two issues require urgent attention -- first, SaskEnergy should be formally established as a Crown corporation under its own legislation and second, the company's financial statements since 1988 should be tabled with the Legislature at the earliest possible opportunity.

Recommendation 5 - 4: **The Commission recommends that during the next session of the Legislature:**

- **legislation should be introduced to establish SaskEnergy as a Crown corporation (in recognition of the current Government's decision not to privatize this company), and**

- **all available financial statements on the operations of SaskEnergy since December 31, 1988, should be tabled.**

- With its responsibilities to administer Saskatchewan's lottery revenues, SaskSport has become the funding vehicle through which culture, recreation, and sports facilities and organizations are funded. Previously, appropriations were made to a government department and to the Saskatchewan Arts Board; the Minister in charge was accountable to the Legislature for the programs and specific grant allocations which were made from these appropriations. Now, the activities of SaskSport are not reported to the Legislature and therefore, the Government is not accountable for what we regard as public funds.

  In our opinion, lottery funds are the result of legislative action. We feel that these revenues are not unlike tax revenues and should be flowing through the Consolidated Fund. We believe that segregating them into a special fund and utilizing SaskSport as a vehicle for distributing the funds, provides no accountability to the Legislature and therefore, to the public. The arm's length adjudication of grants to organizations can, in our opinion, continue. However, the total allocation should follow the same tradition as existed for many years with the Saskatchewan Arts Board -- the Legislature should appropriate a specific budgetary allocation to SaskSport which, if necessary, can be linked in some manner to the forecasted lottery revenues for the year.

Recommendation 5 - 5: **The Commission recommends that all lottery revenues should be transferred to the Consolidated Fund and that annual appropriations should then be approved by the Legislature for subsequent arms' length adjudication and allocation by SaskSport to sports, culture, and recreation organizations. The Commission also recommends that SaskSport should be required to table an annual report and financial**

statement with the Legislature and that these documents should be subject to review by the Public Accounts Committee.

Guarding Against Conflicts of Interest

Individuals involved in managing an organization can face situations where their duty to the organization conflicts with their personal interests or their duties to another firm or organization. To ensure and to demonstrate that the organization's interests are the primary consideration of management and that no one is obtaining special benefit by virtue of a privileged position within the decision-making structure, most organizations have conflict of interest rules for their employees and directors. These rules are usually supplemented with statements of the obligations that these individuals have to the organization which they are serving. For example, co-operatives, business corporations, and non-profit corporations have legislated requirements that the directors must:

- act honestly and in good faith with a view to the best interests of the organization and exercise reasonable care, diligence, and skill in the work they do for the organization, and

- declare conflicts of interest and abstain from voting on contracts where they are in a conflict of interest.

These types of conflict of interest rules and statements of obligations serve two purposes. First, they ensure that individuals with two interests in the same issue do not pursue one interest to the detriment of the other. For example, under The Business Corporations Act, a corporation's director, who is also the owner of a business that wants to contract with the corporation, must disclose this interest to the board and cannot vote on any contract between the director's business and the corporation. Second, the rules help to prevent individuals with a conflict of interest from abusing their position of power to have one of their interests pursued, to the potential detriment of the other interest. Directors who honour the conflict of interest rules and their duties to the corporation will not vote on the specific matter and will not use their influential position within the corporation to attempt to secure a contract for their own business.

Conflict of interest is an even greater concern within government because public funds are involved. As custodians of these funds, governments must be scrupulous to ensure not only that there are no actual conflicts between personal interest and duty, but also that there does not appear to be any such conflict. The Government of Saskatchewan, like other organizations, has developed conflict of interest rules or guidelines. However, we encountered circumstances where these rules were honoured more in form, than in spirit. We also found circumstances where obvious conflicts in operations were permitted:

- Saskatchewan Economic Development Corporation

  While SEDCO's directors followed the established conflict of interest rules during their formal meetings, we were advised of situations where at least one director developed a reputation of advocating certain companies and projects directly to the elected and appointed officials of SEDCO. While technically conflict of interest was taken into account during the board's consideration and votes on various issues, the appearance that the director could have influence within the organization is, in our opinion, a violation of the spirit of the rules.

- Saskatchewan Government Growth Fund (SGGF)

  The purpose of this Fund has been described in an earlier section of this report. Currently, the board of directors of this Fund is made up of individuals who are also members of SEDCO's board. In addition, the affairs of this Fund (including the identification of investment opportunities) are managed by employees of SEDCO.

  In our opinion, the best interests of the investors of the Saskatchewan Government Growth Fund would be best served if the directors, at least, were not affiliated in any way with SEDCO. The interests of the Fund are not the same as those of SEDCO (which is often guided by public-policy objectives) and should be directed at arms' length from SEDCO. This was the problem with using this Fund to provide financial assistance to Flexi-Coil. It cannot be assumed that this investment was undertaken to serve the best interests of the investors in the Saskatchewan Government Growth Fund.

Ensuring Appropriate Accounting of the Transactions

Our report has already discussed in considerable detail the deficiencies in the Government's current accounting practices and the types of changes which should be made to provide full financial disclosure, and hence greater accountability to the public, of its transactions and commitments. Our recommendation to adopt the principles which have been developed by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants will go a long way towards addressing many of the problems that we have identified with the Province's current statements of financial position and with the poor level of disclosure to the Legislature and to the public of various activities.

In chapter 2, we have already discussed and made recommendations to change the accounting treatment of the Saskatchewan Property Management Corporation's loans to fund the capital construction of numerous health and educational institutions. We believe that the application of the PSAAC guidelines will address our concerns and will subsequently result in proper reporting of these activities in the Province's future financial statements.

In chapter 3, we concluded that the cost of constructing the Rafferty and Alameda dams has been inappropriately allocated to the Saskatchewan Water Corporation. Because the dams do not have the ability to produce revenue to finance this project, their capital costs should have been funded by the Province as a budgetary expenditure. Instead, these costs were capitalized on SaskWater's books; the Corporation received loans from the Province and the Province, in turn, recorded interest revenue on its books. This is inappropriate accounting and as a consequence, the capitalized costs in SaskWater's financial records should now be written off.

The following are additional examples where we feel that inappropriate accounting practices were followed:

- SaskPower/SaskEnergy

  In December 1989, as part of the establishment of SaskEnergy, the Saskatchewan Power Corporation sold certain shares and notes receivable to the Crown Management Board for $846 million. This amount represented the estimated fair market value of SaskEnergy's assets. The CMB financed its purchase by assuming an equivalent amount of debt from SaskPower.

SaskPower recorded a gain of $226 million as a result of this transaction. (This represented the difference between the book value of its investment in the assets of SaskEnergy and the consideration which it received for these assets from the Crown Management Board.) When SaskPower's auditors reviewed the recognition of this gain in the Corporation's December 31, 1989 financial statements, they expressed the opinion that it was inappropriate for SaskPower to be recognizing a gain on the sale of assets to another government-owned organization. Not only did this method of accounting result in an overstatement of SaskPower's income and retained earnings, it also resulted in an additional $226 million of debt being transferred to Crown Management Board.

The Commission has reviewed this matter and we agree with SaskPower's auditors that an unearned gain is being inappropriately recognized. This accounting entry should be reversed in order to reflect the financial position of the Saskatchewan Power Corporation more accurately. It should be noted that this correction will not affect the financial position of the Province as a whole and as shown in the appended October 31, 1991, financial statements; the amounts in each corporation are offset through the consolidation of their financial statements.

During our investigation of this matter, we asked the officials of the Crown Management Board about their position with respect to this accounting matter. The Board's legislation gives it the power to order any Crown corporation under its jurisdiction to follow appropriate accounting principles. The Board's staff brought this matter to the attention of SaskPower's management and directors and urged them to follow generally-accepted accounting principles in recording this transaction. SaskPower refused to change its accounting treatment of this transaction and the Crown Management Board did not exert its authority in this regard. We were unable to determine the specific motivations for the CMB's decision.

- Meadow Lake Pulp Limited Partnership

The Government, through Crown Management Board, is participating in a joint-venture with Millar Western Industries Limited to construct a $360 million pulp mill in Meadow Lake. According to the documentation which we examined, this project will be financed through a $100 million loan from the Canadian Imperial Bank of Commerce, a $10 million equity investment by Millar Western,

and a $251 million investment by the Province in the form of loans, equity, and a grant. Miller Western will have a 51% interest in the project, while the Province's share will be 49%.

Saskatchewan's financial contribution to this project includes a $50 million, non-repayable, infrastructure "contribution" which we consider to be effectively a grant. At the time of our review, the Department of Finance was considering the proper accounting treatment for this grant. Normally, the Crown Management Board does not give grants to organizations; such funding is generally considered to be more appropriately a budgetary expenditure which should be subject to full debate and disclosure in the Legislature. Also, when a grant is provided as part of the government's budgetary expenditures, it is treated as an expense in the year when it is disbursed. By utilizing the CMB as a vehicle to provide a $50 million grant to the Meadow Lake Pulp Limited Partnership, the Government not only by-passed the Legislature's approval process, but also caused this amount to be capitalized as part of the CMB's investment.

In preparing the October 31, 1991 consolidated financial statements, the Department of Finance has written off $25.5 million of this grant to reflect the portion relating to Millar Western's interest in the pulp mill. The remaining $24.5 million is part of the Government's total investment in the project. In our opinion, the CMB was used inappropriately as a vehicle for making a grant to this project. It was also inappropriate to reflect all of the grant as an asset because a portion of the benefit was conferred on its joint-venture partner, Millar Western Industries Limited.

Summary and Conclusions

The issues which we have identified through our review of various recent transactions and which have been outlined in this chapter result in the identification of some guidelines which we believe that governments should follow to responsibly manage the financial affairs of the public and subsequently to be accountable for their actions. This chapter addresses the procedural issues involved in furthering the Government's accountability to its taxpayers; in the next chapter, we will focus on the structural considerations.

In summary, a decision by a government to commit public funds to a project or activity must be made under the following conditions:

- Both the business and public-policy objectives should be fully and clearly documented. These objectives will form the benchmarks for evaluating the achievements of the transaction.

- The project should be fully analyzed, including an evaluation of the impact on the Province's financial position and the risks that certain amounts of exposure will be realized. When necessary, external expertise should be obtained to assist in preparing the analysis.

- When the Province has invested, loaned or guaranteed significant funds to a project, the Government has a responsibility to ensure that the public's money is being actively and responsibly managed. As economic, market, or other uncontrollable factors change, the Government should be ensuring that the project's managers are taking the appropriate actions and responses in order to protect the Province's financial position in the project and to ensure that its business and public-policy objectives are still being pursued.

- The respective roles and perspectives of politicians, board members, and employees should be clearly delineated. With all government affairs, the elected officials have the final decision-making authority and are not bound to accept the recommendations of the appointed boards and the staff. There is a responsibility for the non-elected officials to provide the decision-makers with a thorough and accurate analysis to justify their recommendations. The politicians, in turn, should document (and share with their advisors) the factors which were most significant in making their decision and particularly those factors which caused them to decide in a manner which differs from the advice of their officials.

- Whenever a decision is made without the involvement of the Legislature, the authority for taking such action must be clearly identified and must be adequate both in the letter and spirit of the law. Regardless of who provides the authorization, full public disclosure of the transaction must be provided in a timely fashion; this is essential to ensuring that the decision-maker is held accountable for his/her actions.

- The public must be made fully aware of the financial implications of the transactions and commitments of the Government. Confidentiality clauses in agreements should be kept to a minimum and may only be justified when the viability of the project or a partner in the project could be jeopardized through the release of certain information in a highly competitive environment.

- Decisions on the organizational structure which will support a particular financial transaction or commitment should be made on the basis of their operational efficiency or effectiveness. Such decisions should not be made in order to impede disclosing the action to the public or to reduce the extent to which the Government will be held accountable.

- The Government should guard against any possibility that a decision to proceed with a particular transaction or commitment has been influenced, or is perceived to have been influenced, by a director or advisor who has a personal conflict of interest in the matter.

- The transaction or commitment should be recognized in the Government's financial records in accordance with appropriate accounting principles. From our perspective, these principles should be established independently of the reporting-entity. Our suggestion in this report is to adopt the principles which are being developed through the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

Recommendation 5 - 6: **The Commission recommends that the Provincial Government should formalize a process whereby there is released to the Legislature, on each significant transaction or commitment involving a government-owned or controlled agency, a document containing the following information:**

- **the specific business and public-policy objectives of the transaction or commitment,**

- **its financial implications, including the impact on the Province's financial position and an analysis of the risks associated with the transaction,**

- the process that will be used to manage the transaction,

- the legislative authority under which the decision was made if the Legislature did not specifically approve it in advance, and

- the organizational structure which has been chosen for any on-going participation that the Government or its agencies will have in the transaction or commitment, as well as the process by which the public will be regularly informed about its status and performance.

CHAPTER 6 - THE STRUCTURES AND PROCEDURES FOR PUBLIC ACCOUNTABILITY

Background

Throughout the Commission's research program and our subsequent analysis of specific transactions and commitments, the most important part of our evaluation focused on the issue of accountability. This is a fundamental principle of democratic societies and refers to the relationship between the public and the government. There is an obligation upon the government to account to the public, via the Legislature, for its actions and through this, to retain the confidence of the electorate that its affairs are being handled appropriately.

In a democracy, certain powers and responsibilities are delegated by the public to the elected and appointed officials of their governments. These powers must not be used arbitrarily and the responsibilities which flow from them should be open to scrutiny by the electors.

The structures and procedures of government must serve to facilitate, and not to frustrate, the democratic process. However, in implementing these structures and procedures, there must be a balance between accountability and responsiveness. The rules and the institutions must not be so inflexible as to prevent the government from effectively managing the public's affairs and from reacting, in an appropriate and timely fashion, to changing situations and circumstances.

In order to address these broader structural and procedural issues, the Commission obtained the assistance and advice of Dr. A. W. (Al) Johnson. Dr. Johnson was Saskatchewan's Deputy Minister of Finance between 1952 and 1964. Subsequently, he held several senior positions with the Government of Canada -- Assistant Deputy Minister of Finance (1964-68), Economic Advisor to the Prime Minister on the Constitution (1968-70), Secretary to the Treasury Board (1970-73), Deputy Minister of National Health and Welfare (1973-75), and President of the Canadian Broadcasting Corporation (1975-82). More recently, he was the Skelton-Clark Fellow at Queen's University (1982-83) and Professor of Political Science at the University of Toronto (1983-89).

Following a week of interviews with various administrative officials of the Government of Saskatchewan, as well as a one day session with the Commissioners and the Commission's staff, Dr. Johnson provided the Commission with his

observations and suggestions on ways to improve accountability within the Government of Saskatchewan, with particular attention to its Crown corporations. He was assisted in the documentation of these observations and suggestions by Professor Joseph Garcea of the Department of Political Studies at the University of Saskatchewan.

This chapter represents the views and recommendations of the Financial Management Review Commission. While Dr. Johnson's work was a major influence in the preparation of this chapter, it was not the only source of information and therefore, this chapter does not necessarily reflect the views of Dr. Johnson or Professor Garcea.

Accountability and the Legislative Assembly

We consider the Legislative Assembly to be the pre-eminent and ultimate structure for public disclosure -- and hence, for public accountability -- of the affairs of the Government of Saskatchewan and its Crown corporations, boards, commissions, and other agencies. Therefore, decisions and actions which have been presented to the Legislature, both in the planning (e.g. the budget estimates) and results (e.g. Public Accounts) stages, are deemed to have met our basic criteria for accountability.

We have assumed that when an issue has been presented to the Legislative Assembly and/or its appropriate committees, the opportunity for a public debate has occurred and an element of accountability has been addressed. This does not necessarily mean that accountability has been served. Such matters depend upon the quality and thoroughness of the review and debate of the Members of the Legislative Assembly. The Commission has not evaluated, nor is it within its mandate to evaluate, the performance of the elected members of the Legislative Assembly. In previous chapters, we have addressed the type of information that, in our opinion, elected officials need to fulfil their responsibilities. Ultimately, only these officials are in a position to confirm the usefulness of the information.

We feel that the greatest deficiency in public accountability within the Government of Saskatchewan rests with its Crown corporations. Therefore, most of the following discussion and recommendations focus on this component of the Province's organizational structure.

This chapter contains many recommendations concerning the Provincial Government's administrative structure. We have not considered or made any recommendations respecting the type of changes to the Legislature's existing structures and processes that might be required to support our proposed administrative adjustments. For example, there are several recommendations which enhance the accountability of administrative units and their policies by referring them to the Crown Corporations Committee for review. The appropriateness of using this Committee for such purposes is a matter which the Members of the Legislative Assembly will ultimately have to decide.

Historical Overview

For almost forty years prior to the election of the Progressive Conservative Government in 1982, the public accountability of Saskatchewan's Crown corporations depended upon the following three components:

1. Cabinet Ministers chaired the boards of directors of these corporations and were responsible for co-ordinating and ensuring the consistent application of the Government's perspective on policies which might be served by the corporations' services or activities.

2. The CIC/GFO (Crown Investments Corporation and its predecessor, the Government Finance Office) was created as a holding company for the Province's Crown corporations. The CIC/GFO was essentially a Cabinet committee, with all of its members being Cabinet Ministers. Its role was to exert control over the Crown corporations' strategic and capital-project plans, as well as to make decisions on the distribution of their earnings. The full Cabinet had approval authority over the actions of the CIC/GFO board.

3. The Crown Corporations Committee was established in 1946 to allow the Legislature to hold accountable the Ministers who are responsible for specific Crown corporations.

In 1982, the new Provincial Government established the Crown Investments Review Commission to inquire "into and concerning investments of the Government of Saskatchewan in Crown Corporations and other businesses .... " [1] Some of the Commission's recommendations included:

1. The mandate and objectives of every Crown corporation should be clearly defined so that they can be classified. This classification would be used to determine not only a corporation's role, but also to confirm the rationale for its existence in this form (e.g. whether the functions should be returned to a line department).

2. Cabinet Ministers should no longer serve on the boards of directors of "competitive or non-competitive commercial Crown corporations". Cabinet Ministers, however, should be assigned responsibility to the Legislature for these corporations.

3. The Crown Investments Corporation of Saskatchewan would be the holding company for "all competitive commercial Crown corporations, subsidiaries and private sector business investments including minority equity participations". Its role would be to maximize this agency's payments of dividends to the Province. A committee of three Cabinet Ministers would be responsible to the Legislature for the CIC. Rather than Cabinet Ministers, its board would largely consist of members of the general public.

The Government responded to these recommendations by replacing the chairs of each Crown corporation with people from the private sector and assigning Cabinet Ministers to the vice-chair positions. The Crown Management Board was established and consisted of both Cabinet Ministers and private-sector individuals. The role of the new Board was to serve as a:

[1] Crown Investments Review Commission, Report to the Government of Saskatchewan, December 28, 1982.

> "management holding company which fosters economic growth and diversification in the Province directly and also indirectly through its Crown corporations". [2]

In addition, the Crown Corporations Committee became less active, although even prior to 1982, there were complaints about this Committee's effectiveness. The following excerpt is from a 1984 publication which has drawn quotes from a May 22, 1980 debate in the Legislature:

> "Public accountability is rendered ineffective due to the Committee's inability to obtain information from the Minister in charge of the corporations on the grounds that the disclosure of information is contrary to the public interest. 'Management letters and pertinent financial statements of the corporation are not made available to the Committee.' One member of the Legislative Assembly complained, 'We have reached a point where there is virtually no accountability of the Crown corporations of Saskatchewan'." [3]

It is interesting to note that in May 1976, a bill was introduced, but never passed by the Legislature, to create a six member standing committee of the House (with equal representation from the two major political parties and chaired by a member of the opposition) to review the activities of Saskatchewan's Crown corporations. All Crown corporations would have been required, under this bill, to provide the committee with their intentions on rate increases and on all borrowing plans.

The Government's Organizational Structure

Over the past several decades, succeeding governments have reorganized departments and established new Crown corporations and other agencies to address various public-policy priorities or to improve the efficiency and effectiveness of their operations. While we appreciate that the Government's organizational structure must be responsive to the needs of the public which it serves, we question whether

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[2] Crown Management Board of Saskatchewan, Annual Report 1990, p. 3.

[3] Ram Parkash Seth, Pricing and Related Policies of Publicly Owned Electrical Utilities (Halifax: Institute of Public Affairs, Dalhousie University, 1984), p. 64.

accountability can exist or whether the service is being delivered effectively when the public is unable to determine the structure which is currently in place.

During the Commission's brief existence, we found evidence of frustration among not only the general public, but also public servants, that they no longer can readily link the delivery responsibility for various programs and services to specific departments and agencies. The communications system within the Government seems unable to keep up with the changes and therefore, individual public servants are often unable to assist the public in finding the appropriate agency to serve their specific needs.

We feel that a fundamental component of public accountability is that the general public should have a clear understanding of the structure of government and how services are delivered within that structure. All reorganization actions should immediately be supported with appropriate documents and on-going communications systems to provide the general public with ready access to information and assistance in matching services with the responsible agency.

Recommendation 6 - 1: **The Commission recommends that the Government of Saskatchewan should prepare suitable printed information on its current organizational structure which can be provided to the general public and which is supported by an appropriate communications strategy that will assist the public to determine the departments and agencies that are responsible for specific programs.**

Recommendation 6 - 2: **The Commission recommends that the information materials on the Government's organizational structure should be updated in a timely fashion whenever changes are made.**

The Consolidated Fund and Parliamentary Financial Control

A fundamental principle of parliamentary government is that the Legislative Assembly should have ultimate control over the public finances. The vehicle through which this control is exercised is the Consolidated Fund into which all revenues are paid and out of which all expenditures are appropriated by the Legislature. Separate

funds, as legislatures have found over the centuries, provide a government with an opportunity to avoid parliamentary control. The Legislature's control and the Government's accountability to the public are further threatened when structures and procedures are in place to redirect money from passing through the Consolidated Fund. In chapter 4 of this report, we have recommended that a general review should be undertaken of all special funds.

Our examination has identified two specific components of Saskatchewan's financial structures and procedures which, we feel, weaken the Legislature's control over the Government's operations. The first is the existence of the Heritage Fund and the second is the role of the Crown Management Board with respect to the dividends of Crown corporations.

The Heritage Fund has been in existence since 1978 when the Provincial treasury benefited from buoyant markets for our natural resources. As economic conditions have softened, we believe that the existence of this Fund is confusing and raises questions about the extent to which parliamentary control of the Province's finances is being protected. In our discussions with various officials, we were not able to ascertain any valid reason for retaining this Fund.

Recommendation 6 - 3: **The Commission recommends that the Heritage Fund should be abolished and that all revenues and expenditures of the Province should be processed through the Consolidated Fund.**

The second consideration, pertaining to the dividends of Crown corporations, requires delving into the policies and procedures for the disposition of their surpluses and the making good on their losses. In principle, all surpluses of Crown corporations should be paid into the Consolidated Fund, each year, as budgetary revenues; all losses should be financed, every year, as budgetary expenditures. However, there are practical considerations which justify stretching this principle to a limited degree.

Crown corporations with major capital requirements could be permitted to retain all or some of their earnings as a source of financing. For example, the Commission has been told that over the next ten years, Sask Power will have to embark on a $3 billion capital program to replace its aging generation and distribution facilities and to meet its projected load growth. SaskEnergy has projected its capital requirements at approximately $250 million to expand and improve its gas transmission facilities.

Higher electrical and natural gas rates will be required to pay for the replacement program. Financing these expenditures through retained earnings is a user-directed approach and is less costly than adding to the Province's debt burden.

Also, if utility revenues flow directly into the Consolidated Fund, there is a temptation to use rate increases as a source of additional government revenues. According to a December 16, 1991, report by Deloitte & Touche, this was clearly the intention within the proposed 1991-92 budget of the previous Government. Rate increases for Sask Power and Sask Tel were planned for July 1, 1991, in order to provide dividends to flow into the Heritage Fund and ultimately, to help in reducing the Province's overall deficit for that year. The rate increases were not implemented, thereby contributing to the projected shortfall in the Province's budgeted revenues for the current year.

Retained earnings are necessary to enable the Crown corporation to weather business and economic cycles. Through a corporate financing strategy, losses can be incurred in a year and be financed with past or future surpluses; however, this approach is only valid if the losses are caused by circumstances which are unique to that year and not part of an on-going structural problem with the organization.

As a result, there are valid reasons for allowing Crown corporations to retain a portion or all of their surpluses. However, a clearly written general policy should be developed on the circumstances when such retention is justified. The policy must be open for public scrutiny to ensure that it is not being used to circumvent the Legislature's control of the provincial finances.

Recommendation 6 - 4: **The Commission recommends:**

- **that the Government should develop and document a general policy on the circumstances under which Crown corporations will be allowed, in the year during which surpluses or losses are realized, to retain their surpluses or to recover their losses from future income, and**

- **that the Crown Corporations Committee be charged with the responsibility of monitoring**

and reporting, annually, to the Legislature on the continued appropriateness and the application of this policy.

When dividends are declared by a Crown corporation or are received from a joint venture in which the Province is a shareholder, these funds are currently being transferred to the Crown Management Board which, in turn, determines their disposition. This has permitted the Board to expend and to invest these earnings without obtaining the specific approval of the Legislature. This practice has also provided an incentive for the Crown Management Board to strip certain Crowns of their surpluses and retained earnings in order to finance the requirements of other entities within the Board's jurisdiction or to avoid developing a strategy to address the persistent losses of other Crown corporations. To protect the Legislature's control, all dividends should be paid directly to the Consolidated Fund; the Legislature's approval should be required to appropriate any or all of these funds back to the Crown Management Board for its activities.

Recommendation 6 - 5: **The Commission recommends that all dividends declared by Crown corporations and similar government-owned entities and all dividends which the Province receives from a joint venture in which it is a shareholder should be paid directly to the Consolidated Fund.**

This treatment of dividends then raises the question as to when appropriations from the Consolidated Fund would then be made to the Crown Management Board or to any of the Crown corporations or government-owned entities under its jurisdiction. We have concluded that such appropriations would be justified, subject to the approval of the Legislature, for the following purposes:

- to cover the losses of specific Crown corporations, and
- to finance public-policy initiatives which are not part of the commercial orientation of the corporations.

As stated earlier, there are circumstances where we feel that a loss which a Crown entity incurs in a particular year because of economic or market conditions does not have to be financed in that year. However, if the losses persist, a structural problem may exist within the corporation and an incentive should be in place to have

the Government and the corporation's management take the appropriate action to return the entity to a surplus or break-even position. By requiring the Crown Management Board to request from the Legislature, on an annual basis, an appropriation to cover the losses of a Crown entity, the Legislature is able to question the Board on whether it is acting to prevent the losses from persisting into the future.

Crown corporations and other government-owned entities necessarily exist to serve certain public-policy purposes. In relation to the cost of providing the services, a premium may be levied on the rates that are charged to certain customers (e.g. urban telephone service) in order to subsidize the rates for those users where the costs of delivering the service are higher. For public utilities which are in a monopoly position, we believe that these corporations should be given the authority and responsibility to incorporate cross-subsidization principles in setting their rates. This practice is followed by many private sector utility companies in other parts of the country. However, because we are dealing with public corporations, their boards should be accountable to the Legislature for the interpretation and application of their cross-subsidization mandates.

In other circumstances, market conditions may restrict a Crown corporation's flexibility to utilize fully its rate structure to achieve public-policy objectives. In these instances, the achievement of such policy objectives may force the corporation into an on-going loss position. For example, economic diversification policies for SEDCO and rural service requirements on the Saskatchewan Transportation Company may cause certain losses to occur yearly. In order to hold the boards and the management of these corporations accountable for their decisions and actions, we believe that an attempt should be made to place a value on the cost of the public-policy elements and then to make a direct appropriation from the Consolidated Fund to these corporations to finance this cost.

This approach would further the accountability of these corporations in two ways. First, the cost of all public policy initiatives would be subject to an annual review by the Legislature, in the same manner as already exists for similar types of programs provided through government departments. Second, the corporation's board and management could no longer use public-policy requirements as a justification for operating at a loss. Their performance could now be judged primarily on whether the organization operates in a financially-responsible manner. If a loss is incurred, its board of directors will be held accountable for this loss when the Legislature is asked to finance the shortfall.

Recommendation 6 - 6: **The Commission recommends that the operating losses of commercially-oriented Crown corporations and government-controlled agencies should be financed, on a timely basis, by appropriations from the Consolidated Fund. Losses can only be carried forward if the corporation can demonstrate to the Legislature that the potential exists, within a short period of time, to generate sufficient offsetting surpluses.**

Recommendation 6 - 7: **The Commission recommends that when Crown corporations and government-controlled agencies have public-policy responsibilities within their approved mandates and when these policies affect the financial performance of the entity, one of two financing strategies should be employed:**

- **to the extent that market conditions permit, cross-subsidization should be allowed to occur through the corporation's rate structure, and**
- **the financial impact of the policy initiative should be determined and a corresponding appropriation should be made from the Consolidated Fund to the corporation.**

The Role of Crown Corporations

Crown corporations and other government-owned entities are created for various reasons. The Commission does not have a particular philosophical position on whether such organizations should be established by governments. Saskatchewan has a long tradition, spanning many political administrations, of using such entities to achieve policy objectives.

We do, however, strongly oppose the setting up of Crown corporations for the sole purpose of circumventing the Legislature's authority. Crown corporations should not be a vehicle to avoid disclosing activities. Public disclosure is the most important element in ensuring that governments remain accountable to their publics. We note

that several government-owned corporations have been established recently under The Business Corporations Act and that as a result of this status, they have not released financial statements for consideration by the Legislature and the public.

The following are some examples where the use of government-owned corporations, rather than the existing departmental structure, has served to prevent the Legislature and the public from being able to scrutinize certain activities and transactions in a timely or direct fashion:

- The Saskatchewan Diversification Corporation has been established under The Business Corporations Act. One of its activities is to make equity investments and to provide loan guarantees to businesses of a high risk or venture capital nature. At this time, the Corporation has entered into investments and guarantees totalling almost $7 million. Yet, the Legislature has not approved the establishment or the funding of this Corporation; the financing has come directly from the Crown Management Board. The investments and guarantees have not received public scrutiny, nor has the Government been held accountable for the associated risk (including the lack of any provision for valuation allowances).

- In 1986, the Agriculture Credit Corporation was utilized as the vehicle for providing $1 billion in production loans to farmers. The recipients of these loans have not been disclosed to the public because the loans were granted through a corporation, rather than a government department. If they had been made through the Department of Agriculture, the loans would have been reported through the Public Accounts in accordance with the criteria of this document.

These examples have led us to several conclusions with respect to ensuring that Crown corporations and other government-owned entities are not formed solely for the purpose of avoiding public accountability. First, their creation, whether by statute, Order-in-Council under The Crown Corporations Act, or through The Business Corporations Act, must be reported to the Legislature, with provisions made, in the House rules, for debate.

Second, all Crown corporations and government-owned entities must have a documented statement of mandate. The statement should include the following information:

- the functions and purposes of the entity, including an indication of the nature and method of financing its commercial and public-policy purposes,
- matters which the entity is precluded from undertaking (because they are beyond its mandate), including the conditions, if permitted, under which any subsidiaries can be established,
- the mechanisms by which the corporation will be held accountable to the Government and to the Legislature, and
- the extent of the Government's power to direct the corporation in operational matters (e.g. approving rate setting and cross-subsidization decisions for the rates and charges of public utilities, establishing maximum limits on the salaries and benefits paid to senior officials, extending the corporation's mandate)

Crown corporations and most government-owned entities should generally have the power to manage their operations, without government intervention. Otherwise, they should not exist because their functions should more appropriately be assigned to a government department. However, because they can be instruments of public policy, government intervention is inevitable, if for no other reason than to ensure consistency in the policy direction. By having the mandates of these entities documented in the above-noted fashion and tabled with the Legislature (and regularly reviewed by the Crown Corporations Committee), the responsibilities and accountability of the directors of these corporations and of the Government will be clarified.

Third, we see no reason, in principle, why Crown corporations should not be held to the same standards of public disclosure as government departments. The degree of detail and the nature of the information which would be the subject of public reporting might be affected by the policies adopted by the Legislature or by the mandate approved for any corporation.

Fourth, the quality of the information in the annual reports of Crown corporations and other agencies needs to be improved. Many of these reports have become promotional pieces and reveal very little information about the manner in

which these entities are achieving their mandate or about the risks and opportunities that they face. We can cite two examples to illustrate this conclusion:

- The 1990 Annual Report of the Crown Management Board: This report provides very little information on the operations and policy decisions of this Board during the fiscal year. On the other hand, there is a major effort made in the report to identify the various charitable and service organizations that received financial support from the various organizations under the Board's jurisdiction.

- The 1990 Annual Report of the Saskatchewan Water Corporation: The most significant project which will have an impact on this Corporation's financial operations is its agency agreement with the Souris Basin Development Authority. The Corporation has been capitalizing the construction costs of the Rafferty and Alameda dams. However, because the Corporation does not have an adequate revenue base from which to finance these expenditures, major write-offs will be necessary, thereby creating future losses for the corporation. While 1990 financial statements contain a note concerning Sask Water's involvement in this project, it is not given any prominence in the rest of the annual report.

The Legislature (through the Crown Corporations Committee) and the Government need to impress upon the directors and administrators of all government-owned entities that their annual reports are a vehicle for public accountability and are not just a promotional vehicle.

We believe that standards should be established for the preparation of annual reports, with the primary objective of increasing the role that these reports can play in improving the public accountability of the reporting entities. In this regard, the attributes of effectiveness which have been developed by the Canadian Comprehensive Auditing Foundation are a good base upon which to develop these standards. With respect to the commercial Crown corporations, securities legislation may provide a useful model.

For example, Policy Statement 5.10 of the Ontario Securities Commission has specified the type of information that businesses under its jurisdiction should provide

to their investors.[4] The policy requires that the businesses should prepare an annual report with the following components:

- an information form which provides background information on the nature of the business, its operations, and its prospects for the future, including known trends, commitments, events or uncertainties that are reasonably expected to affect its operations or financial condition, and
- the management's discussion and analysis of the business' financial condition and the results of its operations, with particular emphasis on the firm's liquidity and capital resources.

The policy specifies in considerable detail the matters which should be discussed under each component. We believe that this policy is an excellent model which can be applied in preparing the annual reports of commercial Crown corporations, as well as most other government-owned entities.

Recommendation 6 - 8: **The Commission recommends that Crown corporations and other government-owned entities should not be created without their establishment having been reported to and debated in the Legislature in a timely fashion.**

Recommendation 6 - 9: **The Commission recommends that statements of mandate should be prepared and tabled in the Legislature for all Crown corporations and government-owned entities. These statements should provide clear direction on the function and purpose of the corporation, on those matters which the corporation is not permitted to engage in, on the mechanisms through which the corporation will be held accountable to the Government and to the Legislature, and on the extent to which the Government can intervene in the corporation's operational activities. They should be reviewed on**

[4] Ontario Securities Commission, Policy No. 5.10: Annual Information Form and Management's Discussion and Analysis of Financial Condition and Results of Operations, March 9, 1990.

a regular basis by the Crown Corporations Committee.

Recommendation 6 - 10: **The Commission recommends that all corporations in the Government's reporting entity, unless specifically exempted by their mandate, should be subject to the same public-reporting requirements, on their past year's activities, as government departments.**

Recommendation 6 - 11: **The Commission recommends that the Government should adopt standards (similar to what is required by securities regulations in the private sector) for the preparation of annual reports, with the primary emphasis being placed on the role that these reports can play in improving public accountability.**

The Rationale for Establishing Crown Corporations

Considerable work has been done by the Federal Government to classify Crown corporations and agencies in order to clarify their role and their accountability to Parliament. We have noted that in Saskatchewan, a distinction has evolved between "Crown Management Board Crowns" and "Treasury Board Crowns". This distinction seems to do little more than categorize these entities by whether they are under the purview of Treasury Board or the Crown Management Board. In our opinion, a better classification would be on the basis of their inherent character or functions.

The Commission did not have sufficient time to consider which classification system would be most appropriate for Saskatchewan. Our consultants, Al Johnson and Joe Garcea, have suggested the following four major categories:

- Commercial corporations: Even though their primary purpose is commercial, they also will have certain public-policy purposes. Sub-categories can be competitive (e.g. Saskatchewan Transportation Company) and non-competitive (e.g. Saskatchewan Power Corporation).

- Corporations holding equity positions in private corporations.

- Boards, commissions, councils, and other special agencies: These agencies perform certain government functions which are judged to require a greater measure of independence from the Government than is permitted under a departmental structure (e.g. regulatory and lending agencies, research bodies).

- Departmental service units: These are units of government which provide special services, such as printing and property management, whose revenues and charges (usually to government departments) may be applied (without the approval of the Legislature) to finance the costs of providing these services. The Legislature's control is exercised through the Public Accounts.

Our consultants have advised us that further discussion and consideration needs to be given to the categorization of government-owned entities. We have concluded that a categorization is (whatever its final structure) essential because it will form the basis for establishing and differentiating the accountability criteria.

We feel that the categorization should be formally adopted through legislation. Under each category, accountability procedures should be specified. For some of the categories, a corporate plan may have to be filed with the Legislature prior to the start of each fiscal year. Similarly, statements of mandate may be enshrined in legislation for some categories and not for others.

Recommendation 6 - 12: **The Commission recommends that legislation should be introduced which categorizes government-owned entities and which specifies, for each category, the reporting requirements and financial-control mechanisms which will be in place to ensure that they are accountable to the Legislature.**

The Role of the Crown Management Board

In this report, the term "Crown Management Board" has been used to represent the entity which is known under legislation as the Crown Investments Corporation. The CMB's structure (as of September 30, 1991) consists of the following wholly-owned entities and subsidiaries:

- Saskatchewan Development Fund Corporation
- Saskatchewan Economic Development Fund
    - Westank Industries Ltd. (99%)
- Saskatchewan Government Insurance
- Saskatchewan Telecommunications
    - Saskatchewan Telecommunications International Inc. (100%)
    - Nu-Net Communications Ltd. (100%)
    - Westbridge Computer Corporation (27%)
- Saskatchewan Transportation Company
- Saskatchewan Mining Development Corporation
    - CAMECO Corporation (49.2%)
- Saskatchewan Water Corporation
- Saskatchewan Forest Products Corporation
    - Northern Forest Operations Ltd. (100%)
- Saskatchewan Computer Utility Corporation
- Saskatchewan Power Corporation
- CIC Mineral Interests Corporation
    - Potash Corporation of Saskatchewan Inc. (28%)
- Saskatchewan Energy Holdings Ltd. (100%)
    - Trans Gas Limited
    - SaskEnergy Inc.
    - Bayhurst Gas Limited
    - Many Islands Pipe Lines (Canada) Ltd.
        - Many Islands Natural Gas (Canada) Ltd.
- NewGrade Energy Inc. (50%)
- CIC Industrial Interests Inc
    - 586643 Sask Ltd. (100%) [5]
    - Saskatchewan Diversification Corporation (100%)
    - CIC Pulp Ltd. (100%)
        - Meadow Lake Pulp Limited Partnership (49%)
    - National Pig Development (38%)
    - Millar Western Pulp (Meadow Lake) Ltd. (49%)
    - CMB Fertilizer Inc. (100%) [6]

[5] This corporation holds shares in CAMECO.

[6] This corporation held one share in Saferco Products Inc.; the share was transferred to Citibank on December 31, 1991.

- Agdevco International (100%)
- SGI Canada (100%)
- Saskferco Products Ltd. (49%)
- Bi-Provincial Upgrader (17.5%)
- Saskatchewan Oil and Gas Corporation (8.6%)
- IPSCO Inc. (0.7%)

In addition, the Crown Management Board holds several loans and notes with respect to funds which it has lent to several businesses and co-operatives.

The accountability mechanisms which have already been proposed in this chapter suggest a much different role for the Crown Management Board. If the preceding recommendations are adopted (specifically those dealing with the treatment of the dividends, surpluses, and losses of Crown corporations), the Board will no longer function simply as a holding company for the government-owned entities under its jurisdiction. Rather, we see the Crown Management Board as more active, policy-development body which will oversee the Crown sector and which will set priorities for the allocation, among these entities, of appropriations and investment funds from the Consolidated Fund. This Board will be accountable to the Legislature for its actions, as well as those of its subsidiary corporations.

Also, we see a stronger role for the Crown Management Board with respect to the Province's investment in private corporations. The Board will be responsible for acting on behalf of the best interests of the Province and should exercise its influence in a manner which is commensurate with the investment.

Recommendation 6 - 13: **The Commission recommends that the Crown Management Board should be responsible for overseeing and priorizing the allocation of funds to the government-owned entities under its jurisdiction. It should be accountable to the Legislature for all Crown corporations and investments under the Board's jurisdiction. It should also be responsible for representing the Province's investment interests, as an owner, in private corporations.**

The current corporate structure of the Crown Management Board results in ineffective reporting and therefore, poor public accountability. As a holding company,

the CMB oversees a number of corporations that have been established under The Crown Corporations Act. This Act contains provisions for the filing of annual financial statements by these corporations to the Legislature.

However, a growing number of the Government's transactions in major projects have been undertaken through the CMB's wholly-owned subsidiary, CIC Industrial Interests Inc (CIC III). The investments by this subsidiary are reported under the consolidated financial statements of the Crown Management Board, meaning that they are all lumped together with the investments in the other large Crown corporations, such as SaskPower and SaskTel. Therefore, members of the Legislature and the public are not provided with detailed financial information on the activities of CIC III. In our opinion, this reporting practice circumvents the intent of The Crown Corporations Act which requires that all Crown corporations are to file their financial statements on an annual basis.

CIC Industrial Interests Inc., as a holding company, may require the preparation of consolidated financial reports. These should not, however, be regarded as a substitute for reports which will allow for the examination of the affairs of each government-controlled corporation as a separate entity.

Recommendation 6 - 14: **The Commission recommends that in addition to filing the consolidated financial statements of the Crown Management Board, the Legislature should also receive, on a timely basis, full and audited financial statements for each and every subsidiary.**

We believe that the Crown Management Board should be a committee of Cabinet. Therefore, its directors should consist only of Cabinet Ministers and these Ministers should be members of the boards of one or more of the Crown corporations that report to the CMB. This will recognize the public-policy co-ordination responsibilities of the Board and make their members accountable for their decisions of a public-policy nature.

We believe that the previous structure of appointing both private sector individuals and Cabinet Ministers to serve as members of the Crown Management Board was not appropriate because of the political nature of many of the Board's decisions and because of the accountability that members of the Board should have to the Legislature for these types of decisions. That is, if the Crown Management

Board is to be accountable directly to the Legislature, then all of the directors should also be accountable to the Legislature. The only way that this can occur is if all the directors are Cabinet Ministers.

We recognize that CIC Industrial Interests Inc. may be retained as a vehicle for managing the Government's investments in various privately-owned organizations. Even though this holding entity exists as a subsidiary corporation of the CMB, we do not feel that it should be subject to the same criteria for the selection of directors as we have recommended for other subsidiaries. Accordingly, we propose that the Cabinet Ministers who serve on the Crown Management Board should also be the directors of CIC Industrial Interests Inc.

Recommendation 6 - 15: **The Commission recommends that all of the members of the Crown Management Board and the board of directors of CIC Industrial Interest Inc. should be Cabinet Ministers. The Ministers should also be directors of one or more of the Crown corporations under the Board's jurisdiction.**

The Commission also addressed the question of the role that Cabinet Ministers should take with respect to each of the Crown corporations which are under the Crown Management Board's jurisdiction. Saskatchewan has a long tradition where ministers are assigned responsibility for specific Crown corporations. We feel that this tradition should continue.

With respect to their assigned corporations, the Ministers should be members of the corporation's board of directors. Their responsibilities should include advising the Government on the appointment of directors to the corporation's board, ensuring its accountability to the Government and to the Legislature, acting for the Government in giving policy direction to the corporation in accordance with the mandate, representing the corporation's interests in budgetary discussions, and answering for the corporation to the Government and to the Legislature. These Ministers will also be directors of the Crown Management Board and will therefore, become the liaison between the directors of the subsidiary corporations and the CMB.

With respect to the subsidiary corporations of the CMB and other government-controlled corporations, their boards of directors would continue to be responsible for setting the corporation's operating direction and should, in our opinion, include non-

government people. We, however, do not believe that the Ministers who serve on these boards should take any of the "chairing" roles because that would impair the performance of their responsibilities. For example, the Minister, as chairperson (or even as vice-chairperson) of the board, would find it difficult to perform the dual role of providing leadership for the board and also monitoring the board's activities on behalf of the Government and the Legislature in order to maintain accountability.

Recommendation 6 - 16: **The Commission recommends that Cabinet Ministers should continue to be assigned to represent the Government on the boards of directors of each Crown corporation and government-owned entity, but that these Ministers should not be the chairpersons or vice-chairpersons of these boards.**

Recommendation 6 - 17: **The Commission recommends that individuals other than members of the Legislature should continue to be appointed to the boards of directors of Crown corporations and government-owned entities.**

Timeliness of Financial Reporting

Saskatchewan seems to be unique in having a statute (The Tabling of Documents Act) which addresses, in a general way, the tabling of all sorts of public information. In other jurisdictions, legislatures have chosen to specify reporting requirements for particular kinds of information, rather than having an omnibus statute of the kind which exists in Saskatchewan. It is unclear whether this makes any substantial difference in practice.

The Tabling of Documents Act covers only the information which is referred to in other statutes. Its applicability is thus limited to information which must be provided because of a legislative enactment. It would exclude such documents as the reports of commissions or even, presumably, the information produced by Crown corporations which are not established under a statute. It is, of course, always open to the Government to incorporate the provisions of The Tabling of Documents Act when defining the terms of reference of such entities. However, this is not contemplated by the Act itself.

The Financial Management Review Commission received several submissions and recommendations calling for the more timely release of the Province's financial statements (i.e. the Public Accounts) and the annual reports of departments and Crown Corporations. Under The Tabling of Documents Act, the annual reports of government organizations must be forwarded to the appropriate official within ninety days of the fiscal year end. This official must then table the report in the Legislative Assembly within fifteen days after the commencement of the Assembly's session or within fifteen days of receiving the report, whichever is later. The Provincial Auditor has determined that, in practice, the fifteen days refer to "sitting days of the Assembly",[7] not calender days. In His March 31, 1990, report, he identified twenty-three entities which did not submit their reports in accordance with this requirement.

With respect to the Public Accounts, The Financial Administration Act requires that the financial statements should be prepared by the Provincial Comptroller "as soon as is practicable" after the close of the fiscal year. The Minister of Finance must then table them, "as soon as is practicable", with the Legislature. Therefore, the release of these statements is tied to the sitting of the Legislature.

With regard to the audit report on the Province's financial statements, The Provincial Auditor Act requires that this report should be submitted to the Speaker of the Legislature "as soon as is practicable". The Speaker, in turn, will table this document with the Legislative Assembly "as soon as is practicable".

Underlying these tabling requirements is the Legislature's convention that the Public Accounts must be given to the Legislative Assembly before they can be released to individual members of the public. In 1990, the former Minister of Finance made a commitment to "release the main financial statements of the Province to the public immediately upon completion of the audit." He recognized that legislative amendments would be required to improve the timely release of this information. However, he only proposed to "require the Public Accounts to be compiled by November and provided to the Legislature as soon as the House is in session."[8] Under this proposal, if a fall session of the Legislature is not held, the Public Accounts might still not be released until approximately a year after the end of the fiscal year.

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[7] Provincial Auditor of Saskatchewan, Report For the Year Ended March 31, 1990, Appendix IV.

[8] Hepworth, op. cit., p. 3-4.

The Public Accounts for the year ending on March 31, 1991 were not made public until December 12, 1991. A review of the experience in previous years indicates this release was earlier than in the past. The financial statements have usually been presented to the Legislature during the spring sitting -- approximately one year after the close of the fiscal year. [9]

When these documents are released long after the financial reporting period has ended, they are only of historical interest and are of limited value for decision-making and/or effecting appropriate management and policy adjustments. The Commission believes that in the interest of improving public accountability by providing more timely financial information, the Public Accounts must be released much earlier than is possible under current legislation and conventions. Currently, all provinces, except Quebec, have tied the release of the provincial financial statements to the sittings of their respective legislature. In Quebec, the summary financial statements must be published in the province's gazette within six months of the end of each fiscal year.

The Commission has determined that the March 31, 1991, financial statements had been compiled and the audit report work had been completed on July 17, 1991. Therefore, the Commission believes that it would be possible to establish a legislated deadline of 180 days following the end of each fiscal year for releasing the Public Accounts for examination by the general public.

Recommendation 6 - 18: **The Commission recommends that legislative amendments should be made to allow the Speaker to release the Public Accounts for examination by the public within 180 days after a fiscal year end, regardless of whether the Legislature is sitting at that time.**

[9] The following are the dates when the Public Accounts were tabled in previous years:

Date of Statement	Tabling Date
March 31, 1986	June 29, 1987
March 31, 1987	May 19, 1988
March 31, 1988	May 8, 1989
March 31, 1989	March 30, 1990
March 31, 1990	April 11, 1991

Recommendation 6 - 19:

The Commission recommends that, with respect to the annual reports of government organizations, amendments should be made to The Tabling of Documents Act to require these reports to be tabled with the Speaker within ninety days of a fiscal year end and to require the Speaker to release these documents to the public when they are received, regardless of whether the Legislature is sitting at that time.

Controlling the Guaranteed Debt

In earlier chapters of this report, we have expressed concerns about the growth in the amount of private sector debt that is being guaranteed by the Province. We have also made specific recommendations to provide for greater control over the financial risks that the Province is assuming through these guarantees.

At one point during our discussions, we considered recommending that there should be a legislated upper limit on the amount of guaranteed debt that the Province can hold at any one time. However, we were unable to develop a rationale for determining what should be the amount of this limit and, after further reflection, decided that a limit specified within legislation would be arbitrary.

As a result, we can only report that as a group, we feel that the amount of private sector debt which the Province is currently guaranteeing ($1.7 billion on October 31, 1991) is too high, particularly in light of the financial risks associated with several large loans. We were not able to reach a consensus on what would be a more appropriate level, but we certainly wish to discourage the Government from further increasing the current level of guaranteed debt.

We also wish to suggest that the Legislature should be more involved in approving debt guarantees. The lack of public disclosure in the past is troubling and therefore, we feel that consideration should be given to establishing a process that requires the Legislature's approval of all debt guarantees over a specified amount. Again, we have not been able to reach a consensus on what that amount should be.

Recommendation 6 - 20: **The Commission recommends that the Government should develop a comprehensive policy statement regarding the issuance of guarantees. This statement should define the maximum level of guaranteed debt that is appropriate in relation to the Government's overall financial position and should clearly enunciate the size and nature of the guarantees that can be issued without the Legislature's approval.**

Summary and Conclusions

This chapter has focused on the Government's accountability to the public through the Legislature and through the disclosure of information on its activities and transactions. We have made many recommendations which apply to the role and accountability of Crown corporations. While we have concentrated on tightening the accountability procedures, we must keep in mind that a balance needs to exist between ensuring that the Legislature remains in control of the public purse and that the directors of the government-owned entities retain sufficient flexibility to manage the affairs of these organizations effectively and efficiently.

SUMMARY OF RECOMMENDATIONS

2 - 1: The Commission recommends that the Government of Saskatchewan should, through legislation, adopt the accounting principles and reporting standards which are established, and specified, from time to time, by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

2 - 2: The Commission recommends that the Province's main financial statements should report on the financial condition and operating results of all organizations that are owned and controlled by the Government of Saskatchewan.

2 - 3: The Commission recommends that the various pension plans for which the Government of Saskatchewan is responsible should be actuarially-valued regularly (at least every three years) and that unfunded liabilities associated with these pension plans should be recognized in the main financial statements as a liability.

2 - 4: The Commission recommends that transactions involving loans, which can only be repaid through future budgetary appropriations by the Government, should be treated as expenditures, rather than assets (i.e. loans receivable), in the Government's financial statements.

2 - 5: The Commission recommends that, in order to implement Recommendation 2 - 4, all existing loans of the Saskatchewan Property Management Corporation should be written off against the Province's accumulated deficit.

2 - 6: The Commission recommends that the Government of Saskatchewan should record all of its financial transactions by using the principles of accrual accounting.

2 - 7: The Commission recommends that any required valuation allowances against loans and investments should be recorded as a budgetary expenditure in the year when the write-down is necessary.

3 - 1: The Commission recommends that the Government of Saskatchewan should work towards the preparation, for public consideration, of mid-year interim financial statements.

3 - 2: The Commission recommends that provisions for loss and write-downs should be made during the 1991-92 fiscal year for the following investments:

• Saskatchewan Water Corporation	$115.0 million
• Saskatchewan Economic Development Corporation	$ 14.0 million
• Saskatchewan Grain Car Corporation	$ 36.0 million
• Saskatchewan Diversification Corporation	$ 3.5 million

3 - 3: The Commission recommends that the Province's investments in the following projects should be closely monitored to determine whether provisions should be made as at March 31, 1992:

- Meadow Lake Pulp Limited Partnership
- Bi-Provincial Upgrader
- NewGrade Energy Inc.
- CAMECO Corporation

3 - 4: The Commission recommends that the Government of Saskatchewan should incorporate, as part of this spring's Provincial Budget, a financial plan which includes a strategy to restore the strength of the Province's balance sheet.

4 - 1: The Commission recommends that the Government should review its policies and procedures for tendering, leasing, and awarding of contracts by all agencies, including its Crown corporations. This review should include an opportunity for public consultation. The resulting policies and procedures should then be documented in a form against which the Government's actions on any award can be evaluated by the public for compliance.

4 - 2: The Commission recommends that the Government should review the mandate and role of the various agencies which are currently involved in economic development and diversification initiatives.

4 - 3: The Commission recommends that SEDCO's capital structure should be reviewed, with particular consideration being given to the following issues:

- All portions of its current deficit position which can be attributed to economic development and diversification initiatives should be refinanced and therefore, should no longer be SEDCO's responsibility.
- All future public-policy initiatives within SEDCO should be valued and the cost should be financed by an appropriation from the Consolidated Fund.
- All of SEDCO's non-performing investments should be reviewed to determine the Corporation's future responsibility for and involvement in these operations.

4 - 4: The Commission recommends that the Government should undertake a review of all special funds and that the continued existence of these funds, as well as the direct payment of any revenues to a fund other than the Consolidated Fund, should be justified to the Legislature.

4 - 5: The Commission recommends that The Provincial Auditor Act should be reviewed and, where necessary, amended to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private-sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private-sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.

5 - 1: The Commission recommends that a separate study should be undertaken concerning whether any or all of the activities and responsibilities of the Saskatchewan Property Management Corporation should more appropriately be undertaken within government departments, instead of through a Crown corporation.

5 - 2: The Commission recommends that the provisions of The Industry and Commerce Development Act concerning the approval process for loan guarantees should be repealed or, at least, be brought into conformity

with the provisions which exist in The Financial Administration Act for the authorization of such guarantees.

5 - 3: The Commission recommends that the Government should enact legislation concerning the amount of public funds that can be committed to a project or program without the prior approval of the Legislature.

5 - 4: The Commission recommends that during the next session of the Legislature:

- legislation should be introduced to establish SaskEnergy as a Crown corporation (in recognition of the current Government's decision not to privatize this company), and
- all available financial statements on the operations of SaskEnergy since December 31, 1988, should be tabled.

5 - 5: The Commission recommends that all lottery revenues should be transferred to the Consolidated Fund and that annual appropriations should then be approved by the Legislature for subsequent arms' length adjudication and allocation by SaskSport to sports, culture, and recreation organizations. The Commission also recommends that SaskSport should be required to table an annual report and financial statement with the Legislature and that these documents should be subject to review by the Public Accounts Committee.

5 - 6: The Commission recommends that the Provincial Government should formalize a process whereby there is released to the Legislature, on each significant transaction or commitment involving a government-owned or controlled agency, a document containing the following information:

- the specific business and public-policy objectives of the transaction or commitment,
- its financial implications, including the impact on the Province's financial position and an analysis of the risks associated with the transaction,

- the process that will be used to manage the transaction,
- the legislative authority under which the decision was made if the Legislature did not specifically approve it in advance, and
- the organizational structure which has been chosen for any on-going participation that the Government or its agencies will have in the transaction or commitment, as well as the process by which the public will be regularly informed about its status and performance.

6 - 1: The Commission recommends that the Government of Saskatchewan should prepare suitable printed information on its current organizational structure which can be provided to the general public and which is supported by an appropriate communications strategy that will assist the public to determine the departments and agencies that are responsible for specific programs.

6 - 2: The Commission recommends that the information materials on the Government's organizational structure should be updated in a timely fashion whenever changes are made.

6 - 3: The Commission recommends that the Heritage Fund should be abolished and that all revenues and expenditures of the Province should be processed through the Consolidated Fund.

6 - 4: The Commission recommends:

- that the Government should develop and document a general policy on the circumstances under which Crown corporations will be allowed, in the year during which surpluses or losses are realized, to retain their surpluses or to recover their losses from future income, and
- that the Crown Corporations Committee be charged with the responsibility of monitoring and reporting, annually, to the Legislature on the continued appropriateness and the application of this policy.

6 - 5: The Commission recommends that all dividends declared by Crown corporations and similar government-owned entities and all dividends which the Province receives from a joint venture in which it is a shareholder should be paid directly to the Consolidated Fund.

6 - 6: The Commission recommends that the operating losses of commercially-oriented Crown corporations and government-controlled agencies should be financed, on a timely basis, by appropriations from the Consolidated Fund. Losses can only be carried forward if the corporation can demonstrate to the Legislature that the potential exists, within a short period of time, to generate sufficient offsetting surpluses.

6 - 7: The Commission recommends that when Crown corporations and government-controlled agencies have public-policy responsibilities within their approved mandates and when these policies affect the financial performance of the entity, one of two financing strategies should be employed:

- to the extent that market conditions permit, cross-subsidization should be allowed to occur through the corporation's rate structure, and
- the financial impact of the policy initiative should be determined and a corresponding appropriation should be made from the Consolidated Fund to the corporation.

6 - 8: The Commission recommends that Crown corporations and other government-owned entities should not be created without their establishment having been reported to and debated in the Legislature in a timely fashion.

6 - 9: The Commission recommends that statements of mandate should be prepared and tabled in the Legislature for all Crown corporations and government-owned entities. These statements should provide clear direction on the function and purpose of the corporation, on those matters which the corporation is not permitted to engage in, on the mechanisms through which the corporation will be held accountable to the Government and to the Legislature, and on the extent to which the Government can intervene in the corporation's operational activities.

They should be reviewed on a regular basis by the Crown Corporations Committee.

6 - 10: The Commission recommends that all corporations in the Government's reporting entity, unless specifically exempted by their mandate, should be subject to the same public-reporting requirements, on their past year's activities, as government departments.

6 - 11: The Commission recommends that the Government should adopt standards (similar to what is required by securities regulations in the private sector) for the preparation of annual reports, with the primary emphasis being placed on the role that these reports can play in improving public accountability.

6 - 12: The Commission recommends that legislation should be introduced which categorizes government-owned entities and which specifies, for each category, the reporting requirements and financial control mechanisms which will be in place to ensure that they are accountable to the Legislature.

6 - 13: The Commission recommends that the Crown Management Board should be responsible for overseeing and priorizing the allocation of funds to the government-owned entities under its jurisdiction. It should be accountable to the Legislature for all Crown corporations and investments under the Board's jurisdiction. It should also be responsible for representing the Province's investment interests, as an owner, in private corporations.

6 - 14: The Commission recommends that in addition to filing the consolidated financial statements of the Crown Management Board, the Legislature should also receive, on a timely basis, full and audited financial statements for each and every subsidiary.

6 - 15: The Commission recommends that all of the members of the Crown Management Board and the board of directors of CIC Industrial Interest Inc. should be Cabinet Ministers. The Ministers should also be directors of one or more of the Crown corporations under the Board's jurisdiction.

6 - 16: The Commission recommends that Cabinet Ministers should continue to be assigned to represent the Government on the boards of directors of

each Crown corporation and government-owned entity, but that these Ministers should not be the chairpersons or vice-chairpersons of these boards.

6 - 17: The Commission recommends that individuals other than members of the Legislature should continue to be appointed to the boards of directors of Crown corporations and government-owned entities.

6 - 18: The Commission recommends that legislative amendments should be made to allow the Speaker to release the Public Accounts for examination by the public within 180 days after a fiscal year end, regardless of whether the Legislature is sitting at that time.

6 - 19: The Commission recommends that, with respect to the annual reports of government organizations, amendments should be made to The Tabling of Documents Act to require these reports to be tabled with the Speaker within ninety days of a fiscal year end and to require the Speaker to release these documents to the public when they are received, regardless of whether the Legislature is sitting at that time.

6 - 20: The Commission recommends that the Government should develop a comprehensive policy statement regarding the issuance of guarantees. This statement should define the maximum level of guaranteed debt that is appropriate in relation to the Government's overall financial position and should clearly enunciate the size and nature of the guarantees that can be issued without the Legislature's approval.

APPENDIX I

November 19, 1991 91/955

THE LIEUTENANT GOVERNOR IN COUNCIL:

The undersigned has the honour to report that:

1. Section 2 and subsection 5(1) of The Public Inquiries Act provides as follows:

> "2 The Lieutenant Governor in Council, when he deems it expedient to cause inquiry to be made into and concerning a matter within the jurisdiction of the Legislature and connected with the good government of Saskatchewan or the conduct of the public business thereof, or that is in his opinion of sufficient public importance, may appoint one or more commissioners to make such inquiry and to report thereon."
>
> "5(1) The commissioners, if thereunto authorized by the Lieutenant Governor in Council, may engage the services of such accountants, engineers, technical advisors or other experts, clerks, reporters and assistants as they deem necessary or advisable, and also the service of counsel to aid and assist the commissioners in the inquiry."

2. It is of sufficient public importance and is deemed expedient to cause inquiry to be made into and concerning the financial position of the Government of the Province of Saskatchewan and to appoint a commission to make such an inquiry and report thereon.

The undersigned, therefore, has the honour to recommend that your Honour's Order do issue, pursuant to section 2 and subsection 5(1) of The Public Inquiries Act:

(1) Appointing the following persons as commissioners of a Commission of Inquiry to be known as The Financial Management Review Commission:

Don Gass, Saskatoon
Nancy Hopkins, Saskatoon
Garf Stevenson, Regina
Beth Bilson, Saskatoon

(2) Designating Don Gass as Chairman of the Commission of Inquiry.

(3) Authorizing the Commission of Inquiry to engage the services of the Provincial Auditor as a special advisor to the Commission of Inquiry.

(4) Authorizing the Commission of Inquiry to engage the services of Ken Pontikes of Saskatoon as Executive Director of the Commission of Inquiry.

(5) Establishing the terms of reference of the Commission of Inquiry as set out in Schedule A attached hereto.

(6) Authorizing payment by the Department of Finance of expenses incurred in the administration of the Commission of Inquiry.

(7) Authorizing the Commission of Inquiry to engage the services of those persons referred to in subsection 5(1) of The Public Inquiries Act as they deem necessary or advisable to assist them in the inquiry and authorizing reimbursement for expenses in connection therewith to be paid by the Department of Finance.

RECOMMENDED BY: Roy Romanow
President of the Executive Council

APPROVED BY: Roy Romanow
President of the Executive Council

ORDERED BY: Sylvia Fedoruk
Lieutenant Governor
REGINA, Saskatchewan

SCHEDULE A to O.C. 955/91
TERMS OF REFERENCE

WHEREAS the Government of Saskatchewan believes the public interest requires a review of the financial position of the Government, including its Crown corporations, boards and commissions;

AND WHEREAS the Government of Saskatchewan believes that a review of certain transactions entered into by the Government, including its Crown corporations, boards and commissions since January 1, 1983 is in the public interest;

AND WHEREAS the Government of Saskatchewan considers it expedient to cause an inquiry to be made with the objective of obtaining advice on improving financial management and the public accountability of Government, including its Crown corporations, boards and commissions:

NOW, THEREFORE, the Commission of Inquiry appointed pursuant to this Order will have responsibility to inquire into and report on:

1. The accounting principles that should be used to present the financial position and the results of operations of the Government, including its Crown corporations, boards and commissions for the year ending March 31, 1992.

2. The financial position of the Government, including its Crown corporations, boards and commissions as at October 31, 1991, or such other date as may be conveniently chosen by the Commission, using those same accounting principles as determined under (1).

3. An overview of significant transactions occurring since January 1, 1983 under which assets owned by the Government, including its Crown corporations, boards and commissions, have been sold or otherwise disposed of, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

4. An overview of significant commitments undertaken by the Government, including its Crown corporations, boards and commissions since January 1, 1983 involving contributions or commitments, contingent or otherwise, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

5. With reference to (3) and (4) above, a review of information setting out the Government's objectives when the decision to enter into a transaction or a commitment was undertaken, the criteria to be used to determine whether those objectives were or are being achieved, the effect the decision was to have on the Government's financial position and, where appropriate, performance to date.

6. Methods to improve the financial management and public accountability of Government which may include:

a) requirements relating to the tabling of documents and the release of reports by the Government, including its Crown corporations, boards and commissions;

b) changes to the information disclosed in the estimates and the public accounts;

c) changes to the information disclosed in the annual reports of Government departments, Crown corporations, boards and commissions;

d) changes which may be necessary to improve the quality and timeliness of Government financial information provided to the Legislative Assembly and the public.

7. Any other matter the Commission of Inquiry may deem necessary as a result of information coming to their attention during the course of the inquiry.

The Commission's report shall be delivered to the Minister of Finance within ninety (90) days after the date of this Order and shall, on that date, be publicly released by the Commission of Inquiry.

APPENDIX II

COMMISSION MEMBERS

DONALD GASS, B. COMM., C.A., F.C.A. (Chairman)

Partner
Deloitte & Touche
Saskatoon

BETH BILSON, B.A. (Hons), M.A., LL.B., Ph. D.

Assistant Dean and Associate Professor of Law
College of Law, University of Saskatchewan
Saskatoon

NANCY HOPKINS, B. COMM., LL.B.

Partner
Gauley & Co, Barristers and Solicitors
Saskatoon

GARF STEVENSON

President
Saskatchewan Wheat Pool
Regina

EXECUTIVE DIRECTOR

KEN PONTIKES, B. COMM., M.A. (Economics), M.A. (Public Admin.), C.M.A.

Director of Planning & Development
City of Saskatoon
Saskatoon

STAFF

JOHN AITKEN, C.A.

Partner
Deloitte & Touche
Regina

ANDRE BELANGER, C.A.

Consultant
Regina

MAUREEN BELL, C.A., CMC, B.A.

Partner
Ernst & Young
Regina

WILLIAM MACKENZIE, C.A.

Partner
Price Waterhouse
Toronto

BEATY F. BEAUBIER, B.COMM., LL.B.

Lawyer
Priel Stevenson Hood and Thornton
Saskatoon

CONSULTANTS

A. W. (AL) JOHNSON, B. A., M.A., M.P.A., Ph. D.

Professor Emeritus, University of Toronto,
Advisor on Public Policy and Administration
Ottawa

JOSEPH GARCEA, M.A., M.P.A.

Assistant Professor
Department of Political Studies
University of Saskatchewan
Saskatoon

SPECIAL ADVISOR

W. K. STRELIOFF, C.A.

Provincial Auditor
Regina

LEGAL COUNSEL

F. WILLIAM JOHNSON, B.A., LL.B., B.C.L.(OXON)

Partner
Rath Johnson Hart
Regina

OFFICE MANAGERS

TERRI TRAUTMAN (November 1991 - January 1992)

Regina

LORRIE LIX (January 1992 - February 1992)

Regina

APPENDIX III

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1991
(unaudited)

Schedule		($ thousands)
	ASSETS	
	Cash and temporary investments	562,481
	Prepaid expenses	17,539
	Deferred charges	24,216
1	Accounts receivable	317,298
	Inventories for resale	6,086
2&3	Loans receivable	777,692
4	Investment in government enterprises	1,202,586
5&6	Other long-term investments	1,676,115
	Agriculture land and improvements	136,344
		4,720,357
	LIABILITIES AND ACCUMULATED DEFICIT	
	Accounts payable and accruals	438,179
	Deferred revenue	7,581
7	Unfunded pension liability (note 2)	2,930,452
8	Public debt	8,488,600
9	Other liabilities	364,112
		12,228,924
	Unrealized Foreign Exchange Gain	29,451
	Province's Accumulated Deficit	(7,538,018)
		4,720,357
10	Contingencies and commitments (notes 3 and 4)	

(See accompanying notes)

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT
FOR THE YEAR ENDED MARCH 31, 1991
(unaudited)

	($ thousands)
Accumulated Deficit, Beginning of Year	6,569,247
Loss for the year	975,280
Other	(6,509)
Accumulated Deficit, End of Year	7,538,018

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1991
(unaudited)

	($ thousands)
REVENUES (Schedule 11)	
Taxation	1,990,035
Contributions from Federal Government	1,546,337
Natural resources	419,065
Other revenue	739,459
	4,694,896
EXPENSES	
Agriculture	575,744
Debt charges	851,924
Education	909,434
Health	1,659,362
Natural resources and economic development	142,831
Pensions	405,191
Protection of persons and property	170,780
Recreation and culture	109,631
Regional planning and development	264,005
Social services	372,572
Transportation	235,862
Other expenditures	207,708
	5,905,044
	(1,210,148)
Write Down of Loans and Investment	113,549
Loss from Government Service Organizations	(1,323,697)
Income from Government Enterprises	348,417
Loss for the Year	(975,280)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared using accounting principles appropriate for governments and reflect the following significant accounting policies:

a) Reporting Entity

These financial statements report the financial activities of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government, as determined by legislative provisions or by a majority holding of voting share capital.

Trusts administered by a government or government organization are excluded from this government reporting entity.

Universities receive most of their financial resources from voted appropriations which are recorded as expenditures. They are required to report separately to their stewardship. They are also excluded from this reporting entity.

A detailed listing of organizations included in these consolidated financial statements is provided in Schedule 12.

b) Methods of Consolidation

The accounts of all government organizations, except those designated as government enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. These organizations are referred to as government service organizations throughout. Significant inter-organization accounts and transactions are eliminated on consolidation.

Government enterprises have the financial and operating authority to carry on a business. This includes contracting in their own name, and selling goods and services to individuals and non-government organizations as their principal activity and source of revenue. They maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises.

Government enterprises are recorded using the modified equity method in which their net financial position and operating results are reported. Under this method, the government's investment is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprise without adjusting them to conform with the accounting policies described below. Inter-organization accounts and transactions are not eliminated.

Adjustments are not made to account for changes in organizations whose fiscal year-ends are not March 31, 1991 unless the effect of such an adjustment would be significant to the consolidated operating results.

c) Basis of Accounting

The accrual basis of accounting is used for the consolidated financial statements with the following exceptions.

Revenues are recorded on the accrual basis except where the amounts cannot be determined with a reasonable degree of certainty or where their estimation is impractical. The exceptions, which normally relate to certain payments from the Federal Government under the Federal-Provincial Fiscal Arrangements, are recorded when the cash is received.

Individual income taxes and corporate taxes are reported on the basis of the cash received from the Government of Canada prior to the year end. Under the terms of a tax collection agreement, the Government of Canada determines amounts due to the Province.

Capital acquisitions, having an economic life extending beyond the accounting period, are recorded as an expenditure in the period acquired.

d) Reported Assets and Liabilities

Reported assets are those assets on hand at the end of an accounting period which could provide resources to discharge existing liabilities or finance future operations. Because income taxes are reported on a cash basis, net personal and corporate income taxes receivable are not reported.

Reported liabilities include financial obligations to outside organizations and individuals as a result of transactions and events on or before the fiscal year-end. They are the result of contracts, agreements and legislation in force at that date which require the government to repay borrowings or to pay for goods and services acquired or provided prior to the fiscal year-end.

Temporary investments are recorded at the lower of cost and market.

Inventories for resale are recorded at the lower of cost and net realizable value. Inventories of supplies are expensed.

Loans receivable are recorded at the lower of cost and estimated net realizable value.

Long-term investments are accounted for by the cost method where the Province is not able to exercise significant influence and by the equity method where the Province is able to exercise significant influence.

Agricultural land and improvements are assets held for resale.

Consistent with the reporting of capital acquisitions as expenditures, fixed assets are not reported.

Public debt consists of promissory notes, treasury bills, and debentures of government service organizations. These obligations are recorded at principal less sinking fund balances where applicable. The amount of public debt recorded is net of amounts reimbursable from government enterprises.

Promissory notes, treasury bills and debentures are carried at par. Premiums and discounts are recorded as deferred charges and amortized on a straight-line basis over the remaining life of the debt issue. Where borrowing is used to finance loans to government enterprises, all expenses are charged directly to the government enterprises.

Certain debenture issues require payments into a sinking fund. Sinking funds invest in Province of Saskatchewan debentures as well as securities issued or guaranteed by provincial governments, municipal governments, or the Government of Canada until required to retire debt.

All debentures due in foreign currency have been converted to the Canadian dollar equivalent at the exchange rate in effect at March 31. Realized foreign exchange gains and losses are recorded in the statement of operations. Unrealized foreign exchange gains and losses are amortized on a straight line basis over the remaining life of the debt issue.

2. UNFUNDED PENSION LIABILITY

The Government of Saskatchewan sponsors a number of contributory defined benefit pension plans and defined contribution pension plans for its employees, teachers, members of the Legislature and others.

The employee defined contribution plans are fully funded.

There is an unfunded pension liability for the various employee defined benefit plans in the amount of $2,930 million based on the latest actuarial valuation projected to March 31, 1991 (refer to schedule 7). An unfunded pension liability arises where the plan assets are not sufficient to meet the actuarial present value of accrued pension benefits.

3. CONTINGENCIES

a) Guaranteed Debt

At year end, $1,329,470,000 in loans to other parties were guaranteed by the Government of Saskatchewan. Payments on guarantees are treated as expenditures. No payments were pending at year end.

Subsequent to March 31, 1991 the Minister of Finance entered into two agreements guaranteeing certain obligations of the HARO Financial Corporation; one for $50 million and the other to a maximum of $305 million.

The guaranteed debt is not a recorded liability. If events occur which require the Government to assume the repayment of the debt, the liability is recorded in the financial statement at that time. Schedule 10 provides a listing of guaranteed debt at March 31, 1991.

b) **Lawsuits**

There are a number of outstanding lawsuit matters against the Government of Saskatchewan potentially resulting in up to $54 million to be paid up and up to 300,000 acres of land claimed in the future. The outcomes of these are uncertain and the likely loss, if any, cannot be determined. Any loss resulting from litigation matters will be paid out of the Consolidated Fund.

4. COMMITMENTS

Commitments represent obligations for capital contracts and extra-ordinary program commitments to the extent that contracts and agreements were in place at the year-end, as disclosed in the audited financial statements of the government service organizations and government enterprises. Major commitments include:

Government Enterprises

- Forward purchase commitments of $1,866 million for coal and $1,423 million for natural gas contracted for future minimum deliveries valued at current prices.

- Capital expenditure commitments for approximately $681 million.

- Commitment of Saskatchewan Water Corporation to provide funds for certain construction works. The original estimated cost of the works was $120 million (in 1985 dollars) and Sask Water's share is expected to be $48 million.

Government Service Organizations

- Commitment of Saskatchewan Property Management Corporation to provide funds for capital projects at the hospitals and universities. The estimated cost is $62.6 million.

- Capital expenditure commitments for approximately $422 million.

- Commitment of $13.5 million for Agriculture Credit Corporation loans through the Capital Loans Program approved but not disbursed.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
ACCOUNTS RECEIVABLE
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 1

	($ thousands)
Taxes receivable	11,127
Notes and mortgages receivable	2,494
Farm leases receivable	14,085
Dividends receivable	168,268
Trade accounts receivable	121,324
	317,298

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LOANS RECEIVABLE - BY SECTOR
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 2

	($ thousands)
Agriculture	662,828
Economic development	11,803
Education	51,920
Finance	1,304
Housing	27,264
Community services	12,990
Other	9,583
	777,692

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LOANS RECEIVABLE - BY TYPE
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 3

	($ thousands)
Agriculture Credit Corporation:	
Capital loan program	180,385
Investment loan program	6,404
Production loan programs	466,182
Livestock cash advance programs	142,431
Saskatchewan spring seeding loans	1,682
Other loans	220
Allowances for loan losses	(138,354)
Saskatchewan Student Aid Fund:	
Students loans	51,863
Saskatchewan Housing Corporation:	
Mortgages and loans	27,264
Due from Saskatchewan Crop Insurance Corporation	3,878
Other	35,737
	777,692

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
INVESTMENT IN GOVERNMENT ENTERPRISES
AS AT MARCH 31, 1991
(unaudited)

($ thousands)

SCHEDULE 4

	Saskatchewan Forest Products Corporation	Saskatchewan Energy Holdings Ltd.	Saskatchewan Power Corporation	Saskatchewan Water Corporation	Saskatchewan Telecommunications	Saskatchewan Government Insurance	Saskatchewan Economic Development Corporation	Saskatchewan Transportation Company	Agricultural Development Corporation Saskatchewan	Agricultural Implements Compensation Fund	Saskatchewan Grain Car Corporation	Saskatchewan Auto Fund	Saskatchewan Crop Insurance Corporation	Saskatchewan Liquor Board	Adjustments *	Total
ASSETS																
Cash and temporary investments	5,034			9,329		53,045										
Accounts receivable	2,395	53,845	93,900	22,379	86,011	17,291	19,908	2,348		104	1,484	80,880	1,012	72,182		232,227
Inventories	3,069		22,982	0	9,873						0	14,148	204,224	1,122		314,853
Prepaid expenses	158	4,151	93,694	208	8,548	15,035	100	932					340	19,810		48,008
Other long term investments	5		110,373	988	56,094	124,505	232,891					2,833	146	331		97,953
Property, plant and equipment	11,973	389,951	2,427,836	144,881	999,262	15,823	1,739	13,353				278,109	9,172		(22,747)	794,378
Other assets	0	84,482	46,158	404	8,009		994				30,348	26,990	3,066	18,129		4,368,271
Total Assets	21,753	721,539	2,788,903	178,291	1,169,787	224,699	252,453	16,631	0	104	32,019	427,199	217,999	109,574	(10,369)	6,133,211
LIABILITIES																
Bank indebtedness		1,434	3,401	0	2,972	3,403	932	816								12,952
Accounts payable	1,383	66,199	378,398	7,186	109,423	102,872	7,299	2,987				17,011	2,611	8,449		602,799
Notes payable		93,949	79,129	104,232	44,305	2,206	66,936	8,383					199,363			537,774
Deferred revenue current				22,182	7,022	39,218										89,402
Long-term debt current portion		31,074	312,567	1,657	83,918		26,000	88								464,879
Deferred revenue long-term		24,195	226,961	13,274												266,480
Long-term debt		464,021	1,003,254	19,260	629,670		193,306	11			46,330				329,215	2,686,347
Other liabilities												360,131	8,112	6,182		368,425
Total Liabilities	1,383	630,862	1,903,739	167,771	879,907	187,899	277,729	11,804	0	0	46,330	382,142	210,286	14,631	329,215	4,826,825
Net Assets (Liabilities)	20,360	81,677	863,164	10,490	289,880	37,000	(25,276)	4,827	0	104	3,889	46,027	3,703	88,743	(239,583)	1,292,386
REVENUES																
Revenue from operations	20,397	326,418	863,725	13,953	573,724	125,639	20,756	16,216	2,972	17	293	294,456	310,269	297,153	4,189	2,866,936
Transfer from government				16,305							3					16,308
Total Revenue	20,397	326,418	863,725	30,258	573,724	125,639	20,756	16,216	2,972	17	296	294,456	310,269	297,153	4,189	2,799,336
EXPENSES																
From operations	19,358	267,433	539,204	29,869	512,043	108,810	46,122	21,173	4,467	9	114	260,013	310,013	199,978	2,479	2,310,087
Transfer to government	1,367	13,859	37,143	762	9,748	5,178	1,181	362	7							69,429
Total Expenses	20,725	301,092	585,348	29,631	521,791	113,988	47,303	21,535	4,464	9	114	260,013	310,013	199,978	2,479	2,380,483
Income (loss) before extraordinary items	(128)	25,326	118,378	627	51,933	11,632	(20,547)	(5,339)	(1,792)	12	154	24,444	3,256	107,175	1,713	318,845
Extraordinary items			0		(5,060)				123						36,309	31,372
Net Income (Loss) for the Year	(128)	25,326	118,378	627	46,873	11,632	(20,547)	(5,339)	(1,669)	12	154	24,444	3,256	107,175	38,222	348,417
Equity advances (share capital)	40,200	71,831	600,000	700	250,000	37,000	30,000	32,899								1,183,418
Net assets beginning of the year	(19,712)		433,506	9,163	77,786	31,074	(54,727)	(34,619)	(4,469)	92	3,314	20,383	447	183,348	(291,982)	336,866
Other equity									6,099							6,099
Net income (loss) for the year	(128)	25,326	118,378	627	46,873	11,632	(20,547)	(5,339)	(1,669)	12	154	24,444	3,256	107,173	38,222	348,417
Dividends to the Province			(290,723)		(82,753)	(32,706)								(185,000)		(394,182)
Continuity of interest adjustment		(15,180)													15,180	0
Net Assets (Deficiency) - End of the Year	20,360	81,677	863,164	10,490	289,880	37,000	(25,276)	4,827	0	104	3,889	46,027	3,703	85,743	(239,582)	1,292,386

* Adjustments include the reversal of a $229,393,000 gain on sale of investment in Saskatchewan Energy Holdings Ltd. to Crown Investments Corporation of Saskatchewan, elimination of unrealized gain on sale of assets to Saskatchewan Oil and Gas Corporation and the Province's share of Sasktel earnings.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
OTHER LONG-TERM INVESTMENTS - BY SECTOR
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 5

	($ thousands)
Economic development	1,490,482
Financial services	13,768
Municipal financing	156,737
Other	15,128
	1,676,115

OTHER LONG-TERM INVESTMENTS - BY INVESTMENT
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 6

	($ thousands)
Equity basis investments:	
Cameco Corporation	601,453
Potash Corporation of Saskatchewan Inc.	191,960
Bi-Provincial Upgrader, Lloydminster, Saskatchewan	71,223
NewGrade Energy Inc.	67,794
Meadow Lake Pulp Limited Partnership	10,578
Saskferco Products Inc.	7,910
National Pig Development (Canada) Co. Ltd.	1,741
Cost basis investments:	
Share investments:	
Potash Corporation of Saskatchewan Inc.	199,796
Saskatchewan Oil and Gas Corporation	63,355
IPSCO Inc.	1,172
Debentures, Notes and Loans:	
Municipal debentures	156,737
Mortgages receivable (Cadillac Fairview Corporation Ltd.)	41,704
Weyerhaeuser Canada Ltd.	189,607
Prairie Malt Limited	29,026
Dairy Producers Co-operative Limited	10,000
National Pig Development (Canada) Co. Ltd.	585
Sascable Services Inc.	211
Other	31,263
	1,676,115

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
UNFUNDED PENSION LIABLILITY
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 7

($ thousands)

	Type of Plan	Date of Last Valuation	Unfunded Liability at Last Valuation	Projected Unfunded Liability
Public Service Superannuation Plan	Formula	March, 1988	776,830	1,032,703
Teachers' Superannuation Fund	Formula	June, 1989	1,572,000	1,832,491
MLA's Superannuation Fund	Formula	March, 1991	19,657	19,657
Judges of the Provincial Court Superannuation Fund	Formula	January, 1991	10,517	10,517
Other	Formula & Annuity	Various dates	35,084	35,084
			2,414,088	2,930,452

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
PUBLIC DEBT
AS AT MARCH 31, 1991
(unaudited) **SCHEDULE 8**

	($ thousands) Public Debt	Average Interest Rate
Consolidated Fund *	8,431,571	
Saskatchewan Development Fund Corporation	14,829	
Hospital Laundry Service of Regina	5,300	
Municipal Financing Corporation of Saskatchewan	33,000	
Northern Revenue Sharing Trust Fund	3	
Northwest Regional College	12	
Saskatchewan Housing Corporation	2,682	
University Hospital Board	1,109	
Wascana Rehabilitation Centre	94	
Debt of Government Service Organizations	8,488,600	10.3%
Saskatchewan Crop Insurance Corporation	198,563	
Saskatchewan Economic Development Corporation	269,604	
Saskatchewan Energy Holdings Ltd.	776,259	
Saskatchewan Government Insurance	2,206	
Saskatchewan Grain Car Corporation	46,350	
Saskatchewan Power Corporation	1,394,949	
Saskatchewan Telecommunications	757,490	
Saskatchewan Transportation Company	8,427	
Saskatchewan Water Corporation	125,149	
Debt of Government Enterprises **	3,578,997	10.3%
Total Public Debt	12,067,597	

* Consolidated Fund debt is shown net of $3,589,294 reimbursable from Government Enterprises. Consolidated Fund debt includes amounts borrowed on behalf of Government Service Organizations.

** The debt of Government Enterprises is as presented in their audited financial statement closest to March 31, 1991.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
OTHER LIABILITIES
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 9

	($ thousands)
Due to Government Enterprises:	
Due to Saskatchewan Liquor Board	70,000
Due to Saskatchewan Crop Insurance Corporation	176,951
Capital Lease Obligations:	
Saskatchewan Property Management Corporation	78,189
Saskatchewan Institute of Applied Science and Technology	1,830
Regina General Hospital	782
Northlands Community College	324
Other	36,036
	364,112

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
GUARANTEED DEBT
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 10

($ thousands)

The Agricultural Societies Act	
Loans to Exhibition Associations	526
The Breeder Associations Loan Guarantee Program	1,019
CIC Mineral Interest Corporation (formerly Potash Corp. of Saskatchewan)	
Royal Trust, London Life Lease	27,594
T.D. Mutual Life, London Life Lease	36,535
Royal Trust Lease	24,459
The Community Bond Act	1,050
The Co-operatives Guarantee Act	
Saskatchewan Co-op Credit Society - Loans to Co-operatives	553
Crown Management Board (Non-Consolidated)	
IPSCO Inc.	65,000
The Department of Highways and Transportation Act	605
The Farmers' Counselling and Assistance Act	32,338
The Feeder Associations Loan Guarantee Program	17,725
The Government Organizations Act	652
The Housing and Special Care Homes Act	
Senior Citizens Housing	1,026
The Industry and Commerce Development Act	
Loans to Small Business	1,346
The Mortgage Protection Act	
Mortgage Guarantee Program	37,518
The NewGrade Energy Inc. Act	
NewGrade Energy Inc.	338,420
The Power Corporation Act	
I.A.C. Limited - Dragline Lease	25,382
Manalta Coal	40,200
The Pulp and Paper Mills Act	
Weyerhaeuser Canada Ltd.	51,249
Saferco Products Inc.	267,660
The Saskatchewan Development Fund Act	
Guaranteed Investments	3,282
The Saskatchewan Housing Corporation Act	
Home Improvement Loan Program	355,331
Total Guaranteed Debt	1,329,470

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
REVENUES
AS AT MARCH 31, 1991
(unaudited)

SCHEDULE 11

	($ thousands)
Taxation:	
Corporation capital	114,327
Corporation income	65,848
Fuel	174,074
Individual income	980,203
Insurance	22,239
Mineral acreage	5,639
Sales	519,215
Tobacco	100,238
Other	8,252
Contributions from Federal Government:	
Canada Assistance Plan	159,121
Equalization payment	663,398
Established Programs Financing	370,839
Manpower agreements	5,468
Statuatory subsidy	2,181
Housing subsidy	11,712
Other	333,618
Natural Resources:	
Coal	12,284
Natural gas	49,591
Oil	283,036
Potash	49,940
Uranium	19,262
Other	4,952
Other Revenue:	
Investment	293,572
Fees/permits/licences	123,489
Insurance	34,550
Miscellaneous	287,848
	4,694,896

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LISTING OF ENTITIES
MARCH 31, 1991
(unaudited)

SCHEDULE 12

GOVERNMENT SERVICE ORGANIZATIONS (Consolidated)

Agricultural Credit Corporation of Saskatchewan
Agriculture Development Fund
Assurance Fund
Battlefords Regional Care Centre
Board of Governors, Lakeside Home
Board of Governors, Parkridge Centre
Carlton Trail Regional College
Cattle Marketing Deductions Fund
Commercial Revolving Fund
Conservation & Development Revolving Fund
Consolidated Fund
Correctional Facilities Industries Revolving Fund
Correspondence School Revolving Fund
Crop Reinsurance Fund of Saskatchewan
Crown Management Board of Saskatchewan (non-consolidated)
CIC Industrial Interests Inc.
CIC Mineral Interests Corporation (formerly Potash Corp. of Sk.)
Cumberland Regional College
Cypress Hills Regional College
Environmental Protection Fund
Farm Purchase Program Fund
Fish and Wildlife Development Fund
Forest Renewal and Development Fund
Heritage Fund
Highways Revolving Fund
Horned Cattle Fund
Hospital Laundry Services of Regina
La Ronge Hospital Board
Market Development Fund
Milk Control Board
Municipal Financing Corporation of Saskatchewan
New Careers Corporation
Northern Revenue Sharing Trust Account
Northern Saskatchewan Economic Development Revolving Fund
Northlands College
North West Regional College
Oil and Gas Environmental Fund
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkland Regional College
Prairie Agricultural Machinery Institute
Prairie West Regional College
Public Employees Benefits Agency Revolving Fund
Queen's Printer Revolving Fund
Regina General Hospital
Resource Protection and Development Revolving Fund
Saskatchewan Agricultural Returns Stabilization Fund
Saskatchewan Alcohol & Drug Abuse Commission
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Book Bureau Revolving Fund
Saskatchewan Cancer Foundation
Saskatchewan Centre of the Arts Fund
Saskatchewan Communications Network Authority
Saskatchewan Development Fund Corporation
Saskatchewan Gaming Commission
Saskatchewan Health Research Board
Saskatchewan Heritage Foundation
Saskatchewan Horse Racing Commission
Saskatchewan Housing Corporation
Saskatchewan Indian Regional College
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Legal Aid Commission
Saskatchewan Mining Development Corporation
Saskatchewan Prescription Drug Fund
Saskatchewan Property Management Corporation
Saskatchewan Research Council
Saskatchewan Student Aid Fund
Saskatchewan Western Development Museums
Saskatchewan Wetlands Conservation Corporation
Saskatoon Health Services Authority
Souris Basin Development Authority
Souris Valley Regional Care Centre
Southeast Regional College
South Saskatchewan Hospital Centre
South Saskatchewan River Irrigation District No. 1
St. Louis Alcoholism Rehabilitation Centre
University Hospital Board
Victims' Fund
Wascana Rehabilitation Centre
Water Appeal Board
Whitespruce Youth Treatment Centre

GOVERNMENT ENTERPRISES (Modified Equity Method)

Agricultural Implements Board
Saskatchewan Auto Fund
Saskatchewan Crop Insurance Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Energy Holdings Ltd.
Saskatchewan Forest Products Corporation
Saskatchewan Government Insurance
Saskatchewan Grain Car Corporation
Saskatchewan Liquor Board and Liquor Licensing Commission
Saskatchewan Power Corporation
Saskatchewan Telecommunications
Saskatchewan Transportation Company
Saskatchewan Water Corporation

APPENDIX IV

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 1991
(unaudited)

Schedule		($ thousands)
	ASSETS	
	Cash and temporary investments	162,466
	Prepaid expenses	19,250
	Deferred charges	59,397
1	Accounts receivable	225,824
	Inventories for resale	5,994
2&3	Loans receivable	866,140
4	Investment in government enterprises	1,430,895
5&6	Other long-term investments	1,523,294
	Agriculture land and improvements	133,101
		4,426,361
	LIABILITIES AND ACCUMULATED DEFICIT	
	Accounts payable and accruals	686,682
	Deferred revenue	7,096
7	Unfunded pension liability (note 2)	3,084,535
8	Public debt	8,766,401
9	Other liabilities	474,847
		13,019,561
	Unrealized Foreign Exchange Gain	103,458
	Province's Accumulated Deficit	(8,696,658)
		4,426,361
10	Contingencies and commitments (notes 3 and 4)	
	(See accompanying notes)	

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT
FOR THE SEVEN MONTH PERIOD ENDED OCTOBER 31, 1991
(unaudited)

	($ thousands)
Accumulated Deficit, Beginning of Period	7,538,018
Loss for the Period	1,154,504
Other	4,136
Accumulated Deficit, End of Period	8,696,658

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SEVEN MONTH PERIOD ENDED OCTOBER 31, 1991
(unaudited)

	($ thousands)
REVENUES (Schedule 11)	
Taxation	1,184,318
Contributions from Federal Government	697,736
Natural resources	153,566
Other revenue	318,477
	2,354,097
EXPENSES	
Agriculture	279,107
Debt charges	584,611
Education	594,148
Health	942,554
Natural resources and economic development	114,387
Pensions	241,251
Protection of persons and property	84,235
Recreation and culture	66,500
Regional planning and development	161,073
Social services	221,048
Transportation	128,499
Other expenditures	99,514
	3,516,927
	(1,162,830)
Write Down of Loans and Investment	214,983
Loss from Government Service Organizations	(1,377,813)
Income from Government Enterprises	223,309
Loss for the Period	(1,154,504)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared using accounting principles appropriate for governments and reflect the following significant accounting policies:

a) Reporting Entity

These financial statements report the financial activities of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government, as determined by legislative provisions or by a majority holding of voting share capital.

Trusts administered by a government or government organization are excluded from this government reporting entity.

Universities receive most of their financial resources from voted appropriations which are recorded as expenditures. They are required to report separately to their stewardship. They are also excluded from this reporting entity.

A detailed listing of organizations included in these consolidated financial statements is provided in Schedule 12.

b) Methods of Consolidation

The accounts of all government organizations, except those designated as government enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. These organizations are referred to as government service organizations throughout. Significant inter-organization accounts and transactions are eliminated on consolidation.

Government enterprises have the financial and operating authority to carry on a business. This includes contracting in their own name, and selling goods and services to individuals and non-government organizations as their principal activity and source of revenue. They maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises.

Government enterprises are recorded using the modified equity method in which their net financial position and operating results are reported. Under this method, the government's investment is initially recorded at cost and adjusted each reporting period to include the net earnings/losses and other net equity changes of the enterprise without adjusting them to conform with the accounting policies described below. Inter-organization accounts and transactions are not eliminated.

Adjustments are not made to account for changes in government organizations from April 1, 1991 to October 31, 1991 unless the effect of such an adjustment would be significant to the consolidated operating results.

c) Basis of Accounting

The accrual basis of accounting is used for the consolidated financial statements with the following exceptions.

Revenues are recorded on the accrual basis except where the amounts cannot be determined with a reasonable degree of certainty or where their estimation is impractical. The exceptions, which normally relate to certain payments from the Federal Government under the Federal-Provincial Fiscal Arrangements, are recorded when the cash is received.

Individual income taxes and corporate taxes are reported on the basis of the cash received from the Government of Canada on or before October 31, 1991. Under the terms of a tax collection agreement, the Government of Canada determines amounts due to the Province.

Capital acquisitions, having an economic life extending beyond the accounting period, are recorded as an expenditure in the period acquired.

d) Reported Assets and Liabilities

Reported assets are those assets on hand at the end of an accounting period which could provide resources to discharge existing liabilities or finance future operations. Because income taxes are reported on a cash basis, net personal and corporate income taxes receivable are not reported.

Reported liabilities include financial obligations to outside organizations and individuals as a result of transactions and events on or before October 31, 1991. They are the result of contracts, agreements and legislation in force at that date which require the government to repay borrowings or to pay for goods and services acquired or provided prior to the end of the reporting period.

Temporary investments are recorded at the lower of cost and market.

Inventories for resale are recorded at the lower of cost and net realizable value. Inventories of supplies are expensed.

Loans receivable are recorded at the lower of cost and estimated net realizable value.

Long-term investments are accounted for by the cost method where the Province is not able to exercise significant influence and by the equity method where the Province is able to exercise significant influence.

Agricultural land and improvements are assets held for resale.

Consistent with the reporting of capital acquisitions as expenditures, fixed assets are not reported.

Public debt consists of promissory notes, treasury bills, and debentures of government service organizations. These obligations are recorded at principal less sinking fund balances where applicable. The amount of public debt recorded is net of amounts reimbursable from government enterprises.

Promissory notes, treasury bills and debentures are carried at par. Premiums and discounts are recorded as deferred charges and amortized on a straight-line basis over the remaining life of the debt issue. Where borrowing is used to finance loans to government enterprises, all expenses are charged directly to the government enterprises.

Certain debenture issues require payments into a sinking fund. Sinking funds invest in Province of Saskatchewan debentures as well as securities issued or guaranteed by provincial governments, municipal governments, or the Government of Canada until required to retire debt.

All debentures due in foreign currency have been converted to the Canadian dollar equivalent at the exchange rate in effect at October 31. Realized foreign exchange gains and losses are recorded in the statement of operations. Unrealized foreign exchange gains and losses are amortized on a straight line basis over the remaining life of the debt issue.

2. UNFUNDED PENSION LIABILITY

The Government of Saskatchewan sponsors a number of contributory defined benefit pension plans and defined contribution pension plans for its employees, teachers, members of the Legislature and others.

The employee defined contribution plans are fully funded.

There is an unfunded pension liability for the various employee defined benefit plans in the amount of $3,084 million based on the latest actuarial valuation projected to October 31, 1991 (refer to schedule 7). An unfunded pension liability arises where the plan assets are not sufficient to meet the actuarial present value of accrued pension benefits.

3. CONTINGENCIES

a) Guaranteed Debt

At October 31, 1991 $1,692,642,000 in loans to other parties were guaranteed by the Government of Saskatchewan. Payments on guarantees are treated as expenditures. No payments were pending at October 31, 1991.

The guaranteed debt is not a recorded liability. If events occur which require the Government to assume the repayment of the debt, the liability is recorded in the financial statement at that time. Schedule 10 provides a listing of guaranteed debt at October 31, 1991.

b) Lawsuits

There are a number of outstanding lawsuit matters against the Government of Saskatchewan. As per the latest available information, at March 31, 1991 there was potentially up to $54 million to be paid up and up to 300,000 acres of land claimed in the future. The outcomes of these are uncertain and the likely loss, if any, cannot be determined. Any loss resulting from litigation matters will be paid out of the Consolidated Fund.

4. COMMITMENTS

Commitments represent obligations for capital contracts and extra-ordinary program commitments to the extent that contracts and agreements were in place at October 31, 1991, as disclosed in the unaudited financial statements of the government service organizations and government enterprises. Major commitments include:

Government Enterprises

- Forward purchase commitments of $2,033 million for coal and $1,423 million (at March 31, 1991) for natural gas contracted for future minimum deliveries valued at 1991 prices.

- Capital expenditure commitments for approximately $557 million.

- Commitment of Saskatchewan Water Corporation to provide funds for certain construction works. The original estimated cost of the works was $120 million (in 1985 dollars) and Sask Water's share is expected to be $48 million. Final project costs will be greater due to expected project mitigation expenses. $130 million has been forwarded to date with an expected $40 million required for completion.

Government Service Organizations

- Commitment of Saskatchewan Property Management Corporation to provide funds for capital projects at the hospitals and universities. The estimated cost is $41.7 million.

- Capital expenditure commitments for approximately $196 million.

- Commitment of $13.5 million (at March 31, 1991) for Agriculture Credit Corporation loans through the Capital Loans Program approved but not disbursed.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
ACCOUNTS RECEIVABLE
AS AT OCTOBER 31, 1991
(unaudited)

SCHEDULE 1

	($ thousands)
Taxes receivable	11,098
Farm leases receivable	15,767
Dividends receivable	60,000
Trade accounts receivable	138,959
	225,824

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LOANS RECEIVABLE - BY SECTOR
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 2**

	($ thousands)
Agriculture	748,954
Economic development and trade	11,860
Education	51,390
Finance	3,786
Housing	25,728
Community services	14,158
Other	10,264
	866,140

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LOANS RECEIVABLE - BY TYPE
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 3**

	($ thousands)
Agriculture Credit Corporation:	
Loan programs including capital, investment, production, seeding and livestock cash advances, net of allowances	714,314
Gross Revenue Insurance Plan (GRIP)	29,332
Saskatchewan Student Aid Fund:	
Students loans	51,333
Saskatchewan Housing Corporation:	
Mortgages and loans	25,728
Due from Saskatchewan Crop Insurance Corporation	3,878
Other	41,555
	866,140

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
INVESTMENT IN GOVERNMENT ENTERPRISES
AS AT OCTOBER 31, 1991
(unaudited)

($ thousands)

SCHEDULE 4

	Saskatchewan Forest Products Corporation	Saskatchewan Energy Holdings Ltd.	Saskatchewan Power Corporation	Saskatchewan Water Corporation [Restated]	Saskatchewan Telecommunications	Saskatchewan Government Insurance	Saskatchewan Economic Development Corporation	Saskatchewan Transportation Company	Agricultural Implements Compensation Fund *	Saskatchewan Grain Car Corporation	Saskatchewan Auto Fund	Saskatchewan Crop Insurance Corporation *	Saskatchewan Liquor Board	Adjustments**	Total
ASSETS															
Cash and temporary investments	2,488		199,000	25,089	25,586	31,478		(547)	104	1,701	87,282	1,012	148,425		480,578
Accounts receivable	2,813	33,282	83,000	4,858	71,377	22,259		3,003		19	22,186	304,224			448,803
Inventories	4,301	4,835	74,000		10,813			594				349	13,801		108,713
Prepaid expenses	188			338	9,950	13,081		111			1,826	148	257		26,675
Other long term investments			127,000	908	43,264	144,430	287,290	3			312,742	9,172		(22,747)	979,023
Property, plant and equipment	11,469	873,588	2,847,000	218,731	981,345	13,499		16,262		80,548	25,826	3,088	13,992		4,886,053
Other assets		80,343			10,648		2,424				7,307			10,318	111,038
Total Assets	21,437	792,085	3,087,000	249,705	1,151,721	229,762	289,714	19,429	104	82,268	466,842	213,998	170,175	(12,431)	6,717,879
LIABILITIES															
Bank indebtedness			109,000				803			1		2,811			111,415
Accounts payable	2,288	83,888	135,000	12,180	70,486	89,736	9,762	2,838			18,177		9,948		413,712
Dividends payable			60,000												60,000
Notes payable		20,422	304,000	196,791			20,260	19,400				198,983			719,406
Deferred revenue current				22,740	5,881	59,486					134,675				223,782
Long-term debt current portion		31,898	195,000	1,857											228,613
Deferred revenue long-term		30,152	226,080	13,109											271,261
Long-term debt		866,294	1,118,000	29,150	737,199		273,999			46,380				128,219	2,990,731
Other liabilities								11			253,921	9,112	9,020		290,064
Total Liabilities	2,288	984,482	2,148,000	235,577	814,565	159,241	306,301	21,247	0	46,381	406,773	210,296	18,968	128,219	5,290,884
Net Assets (Liabilities)	19,149	87,583	951,000	11,128	337,156	89,521	(36,677)	(1,818)	104	5,917	60,169	3,703	154,807	(240,648)	1,430,995
REVENUES															
Revenue from operations	23,118	182,956	951,000	13,910	474,535	109,729	19,053	18,471		358	248,302		177,994		1,911,113
Transfer from government				11,378						8					11,387
Total Revenue	23,118	182,956	951,000	24,988	474,535	109,729	19,053	18,471	0	365	248,302	0	177,994	0	1,922,500
EXPENSES															
From operations	24,329	167,050	463,184	24,350	429,259	89,187	12,797	22,917		118	221,880		109,139	2,083	1,962,022
Transfer to government						4,090	23,749				8,470				36,209
Total Expenses	24,329	167,050	463,184	24,350	429,259	93,207	36,456	22,917	0	118	230,190	0	109,139	2,083	1,998,191
Income (loss) before extraordinary items	(1,211)	15,906	87,836	638	45,276	13,521	(17,403)	(8,446)	0	249	18,142	0	68,864	(2,083)	223,309
Extraordinary items							0								0
Net Income (Loss) for the Period	(1,211)	15,906	87,836	638	45,276	13,521	(17,403)	(8,446)	0	249	18,142	0	68,864	(2,083)	223,309
Equity advances (share capital)	40,200	71,331	800,000	700	250,000	98,000	36,000	33,985							1,108,416
Net assets beginning of the period	(19,840)	10,146	263,164	9,790	38,980		(79,274)	(29,358)	104	5,668	40,027	3,793	85,743	(238,563)	96,170
Net income (loss) for the period	(1,211)	15,906	87,836	638	45,276	13,521	(17,403)	(8,446)	0	249	18,142	0	68,864	(2,083)	223,309
Dividends to the Province															0
Net Assets (Deficiency) - End of the Period	19,149	87,583	951,000	11,128	337,156	89,521	(36,677)	(1,818)	104	5,917	60,169	3,703	154,807	(240,646)	1,430,995

* Financial information as at March 31, 1991

** Adjustments include elimination of $226,383,000 gain on sale of investment in Saskatchewan Energy Holdings Ltd. to Crown Investments Corporation of Saskatchewan, elimination of unrealized gain on sale of assets to Saskatchewan Oil and Gas Corporation and the Province's share of Sasktel earnings.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
OTHER LONG-TERM INVESTMENTS - BY SECTOR
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 5**

	($ thousands)
Economic development and trade	1,354,324
Financial services	13,726
Municipal financing	141,455
Other	13,789
	1,523,294

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
OTHER LONG-TERM INVESTMENTS - BY INVESTMENT
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 6**

	($ thousands)
Equity basis investments:	
Cameco Corporation	378,811
Bi-Provincial Upgrader, Lloydminster, Saskatchewan	177,098
Meadow Lake Pulp Limited Partnership	140,190
Saskferco Products Inc.	38,076
NewGrade Energy Inc.	3,325
National Pig Development (Canada) Co. Ltd.	1,741
Cost basis investments:	
Share investments:	
Potash Corporation of Saskatchewan Inc.	265,825
Saskatchewan Oil and Gas Corporation	63,355
Cameco Corporation	39,333
IPSCO Inc.	1,172
Debentures, Notes and Loans:	
Municipal debentures	144,783
Mortgages receivable (Cadillac Fairview Corporation Ltd.)	41,413
Weyerhaeuser Canada Ltd.	189,607
Dairy Producers Co-operative Limited	10,000
Promavia International Corporation	1,210
SGI Canada Insurance Services Inc.	1,000
National Pig Development (Canada) Co. Ltd.	573
Sascable Services Inc.	193
Other	25,589
	1,523,294

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
UNFUNDED PENSION LIABLILITY
AS AT OCTOBER 31, 1991
(unaudited)

SCHEDULE 7

($ thousands)

	Type of Plan	Date of Last Valuation	Unfunded Liability at Last Valuation	Projected Unfunded Liability
Public Service Superannuation Plan	Formula	March, 1988	776,830	1,098,230
Teachers' Superannuation Fund	Formula	June, 1989	1,572,000	1,918,007
MLA's Superannuation Fund	Formula	March, 1991	19,657	20,570
Judges of the Provincial Court Superannuation Fund	Formula	January, 1991	10,517	11,008
Other	Formula & Annuity	Various dates	35,084	36,720
			2,414,088	3,084,535

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
PUBLIC DEBT
AS AT OCTOBER 31, 1991
(unaudited)

SCHEDULE 8

	($ thousands) Public Debt	Average Interest Rate
Consolidated Fund *	8,712,711	
Saskatchewan Development Fund Corporation	13,136	
Hospital Laundry Services of Regina	5,300	
Municipal Financing Corporation of Saskatchewan	32,000	
Northwest Regional College	12	
Saskatchewan Housing Corporation	2,039	
University Hospital Board	1,109	
Wascana Rehabilitation Centre	94	
Debt of Government Service Organizations	8,766,401	10.2%
Saskatchewan Crop Insurance Corporation **	198,563	
Saskatchewan Economic Development Corporation	295,826	
Saskatchewan Energy Holdings Ltd.	838,857	
Saskatchewan Grain Car Corporation	46,350	
Saskatchewan Power Corporation	1,615,000	
Saskatchewan Telecommunications	737,186	
Saskatchewan Transportation Company	18,400	
Saskatchewan Water Corporation	187,568	
Debt of Government Enterprises	3,937,750	10.3%
Total Public Debt	12,704,151	

* Consolidated Fund debt is shown net of $3,635,887 reimbursable from Government Enterprises. Consolidated Fund debt includes amounts borrowed on behalf of Government Service Orgnizations.

** As at March 31, 1991

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
OTHER LIABILITIES
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 9**

	($ thousands)
Due to Government Enterprises:	
Due to Saskatchewan Liquor Board	110,300
Due to Saskatchewan Crop Insurance Corporation	174,288
Capital Lease Obligations:	
Saskatchewan Property Management Corporation	76,504
Saskatchewan Institute of Applied Science and Technology	1,830
Regina General Hospital	782
Northlands Community College	324
Other	110,819
	474,847

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
GUARANTEED DEBT
AS AT OCTOBER 31, 1991
(unaudited)

SCHEDULE 10

	($ thousands)	
The Agricultural Societies Act		
Loans to Exhibition Associations	526	*
The Breeder Associations Loan Guarantee Program	6,750	*
CIC Mineral Interest Corporation (formerly Potash Corp. of Saskatchewan)		
Royal Trust, London Life Lease	26,495	*
T.D. Mutual Life, London Life Lease	75,341	*
Royal Trust Lease	23,725	*
The Community Bond Act	4,805	*
The Co-operatives Guarantee Act		
Saskatchewan Co-op Credit Society - Loans to Co-operatives	465	*
Crown Management Board (Non-Consolidated)		
IPSCO Inc.	65,000	
The Department of Highways and Transportation Act	565	*
The Farmers' Counselling and Assistance Act	52,787	*
The Feeder Associations Loan Guarantee Program	20,500	*
The Government Organizations Act	652	*
HARO Financial Corporation		
Canadian Imperial Bank of Commerce	305,000	*
Crown Life	50,000	*
The Housing and Special Care Homes Act		
Senior Citizens Housing	1,026	*
The Industry and Commerce Development Act		
Loans to Small Business	1,193	*
The Mortgage Protection Act		
Mortgage Guarantee Program	37,518	
The NewGrade Energy Inc. Act		
NewGrade Energy Inc.	333,806	*
The Power Corporation Act		
I.A.C. Limited - Dragline Lease	24,932	*
Manalta Coal	39,461	*
The Pulp and Paper Mills Act		
Weyerhaeuser Canada Ltd.	51,249	*
Saferco Products Inc.	261,400	*
The Saskatchewan Development Fund Act		
Guaranteed Investments	3,103	*
The Saskatchewan Housing Corporation Act		
Home Improvement Loan Program	306,343	
Total Guaranteed Debt	1,692,642	

* As at September 30, 1991

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
REVENUES
AS AT OCTOBER 31, 1991
(unaudited) **SCHEDULE 11**

	($ thousands)
Taxation:	
Corporation capital	65,198
Corporation income	54,982
Fuel	121,401
Individual income	554,586
Insurance	223
Mineral acreage	5,652
Sales	327,884
Tobacco	54,221
Other	171
Contributions from Federal Government:	
Canada Assistance Plan	89,553
Equalization payment	370,032
Established Programs Financing	205,641
Manpower agreements	2,276
Statuatory subsidy	203
Housing subsidy	10,779
Other	19,252
Natural Resources:	
Coal	5,044
Natural gas	20,311
Oil	96,114
Potash	25,517
Uranium	4,091
Other	2,489
Other Revenue:	
Investment	112,677
Fees/permits/licences	61,324
Insurance	2,663
Miscellaneous	141,813
	2,354,097

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN
LISTING OF ENTITIES
OCTOBER 31, 1991
(unaudited)

SCHEDULE 12

GOVERNMENT SERVICE ORGANIZATIONS (Consolidated)

Agricultural Credit Corporation of Saskatchewan
Agriculture Development Fund
Assurance Fund
Battlefords Regional Care Centre
Board of Governors, Lakeside Home
Board of Governors, Parkridge Centre
Carlton Trail Regional College
Cattle Marketing Deductions Fund
Commercial Revolving Fund
Conservation & Development Revolving Fund
Consolidated Fund *
Correctional Facilities Industries Revolving Fund
Correspondence School Revolving Fund
Crop Reinsurance Fund of Saskatchewan *
Crown Management Board of Saskatchewan (non-consolidated) *
CIC Industrial Interests Inc. *
CIC Mineral Interests Corporation * (formerly Potash Corp. of Sk.)
Cumberland Regional College
Cypress Hills Regional College
Environmental Protection Fund
Farm Purchase Program Fund
Fish and Wildlife Development Fund
Forest Renewal and Development Fund
Heritage Fund *
Highways Revolving Fund
Horned Cattle Fund
Hospital Laundry Services of Regina
La Ronge Hospital Board
Market Development Fund
Milk Control Board
Municipal Financing Corporation of Saskatchewan *
New Careers Corporation
Northern Revenue Sharing Trust Account *
Northern Saskatchewan Economic Development Revolving Fund
Northlands College
North West Regional College
Oil and Gas Environmental Fund
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkland Regional College
Prairie Agricultural Machinery Institute
Prairie West Regional College
Public Employees Benefits Agency Revolving Fund
Queen's Printer Revolving Fund
Regina General Hospital
Resource Protection and Development Revolving Fund
Saskatchewan Agricultural Returns Stabilization Fund
Saskatchewan Alcohol & Drug Abuse Commission
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Book Bureau Revolving Fund
Saskatchewan Cancer Foundation
Saskatchewan Centre of the Arts Fund
Saskatchewan Communications Network Authority
Saskatchewan Development Fund Corporation *
Saskatchewan Gaming Commission
Saskatchewan Health Research Board
Saskatchewan Heritage Foundation
Saskatchewan Horse Racing Commission
Saskatchewan Housing Corporation *
Saskatchewan Indian Regional College
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Legal Aid Commission
Saskatchewan Mining Development Corporation *
Saskatchewan Prescription Drug Fund
Saskatchewan Property Management Corporation *
Saskatchewan Research Council
Saskatchewan Student Aid Fund *
Saskatchewan Western Development Museums
Saskatchewan Wetlands Conservation Corporation
Saskatoon Health Services Authority
Souris Basin Development Authority *
Souris Valley Regional Care Centre
Southeast Regional College
South Saskatchewan Hospital Centre
South Saskatchewan River Irrigation District No. 1
St. Louis Alcoholism Rehabilitation Centre
University Hospital Board
Victims' Fund
Wascana Rehabilitation Centre
Water Appeal Board
Whitespruce Youth Treatment Centre

GOVERNMENT ENTERPRISES (Modified Equity Method)

Agricultural Implements Board
Saskatchewan Auto Fund *
Saskatchewan Crop Insurance Corporation
Saskatchewan Economic Development Corporation *
Saskatchewan Energy Holdings Ltd.
Saskatchewan Forest Products Corporation *
Saskatchewan Government Insurance *
Saskatchewan Grain Car Corporation *
Saskatchewan Liquor Board and Liquor Licensing Commission *
Saskatchewan Power Corporation *
Saskatchewan Telecommunications *
Saskatchewan Transportation Company *
Saskatchewan Water Corporation *

*** The financial statement is prepared using the entities unaudited October 31, 1991 financial statements. The other entities are included using their most recent audited financial statement.**

APPENDIX V

FINANCIAL MANAGEMENT REVIEW COMMISSION

Conflict of Interest and Confidentiality Policy

Preamble

As a result of the expertise, employment experience, and professional affiliations of its Commissioners and staff, the Financial Management Review Commission has deemed it appropriate and essential that a conflict of interest policy should be implemented to ensure the integrity and credibility of its final report, as well as of the individuals who are participating in the work of the Commission. It should be noted that in addition to the existence of this policy, the Commissioners and the members of the Commission's staff are approaching their responsibilities in a professional manner and are governed by the codes of ethics which may apply to their profession.

Conflict of Interest Policy

It is the responsibility of each Commissioner and of each member of the Commission's staff to reveal, and to exclude himself or herself from the deliberations or decisions on, any matters in which he or she might have a conflict of interest.

Circumstances where a Conflict of Interest Exists

For every transaction or commitment which is being reviewed by the Commission, a conflict of interest exists whenever the Commissioner or the member of the Commission's staff:

(a) is directly involved in the transaction or commitment,

(b) has given an opinion or reasonably anticipates being asked to give an opinion in relation to the transaction or commitment to a party that is involved in the transaction or commitment, or

(c) is an employee, officer or director of a corporation that is in competition with a party that is involved in the transaction or commitment.

The existence of a conflict of interest is not limited to those matters in which an individual is directly involved. It also extends to any matter in which the business or other organization from which the individual is being remunerated or has been seconded to serve the Commission is involved. For example, a staff accountant who has been seconded to the Commission is in conflict of interest if his or her firm is in a conflict of interest.

Procedures for Addressing a Conflict of Interest

1. As various transactions and commitments are brought forward, each Commissioner, as well as the Executive Director, must advise the other Commissioners, in writing (or have a note made in the minutes of the Commission's meeting), whenever a conflict of interest exists. Similarly, for the purpose of assigning work responsibilities, the Commission's staff must advise the Executive Director, in writing, of conflicts of interest.

2. A Commissioner who has declared a conflict of interest shall not be present at, and shall not participate in, any discussions (both formal and informal), analyses, evaluations, or decision-making processes with respect to a specific transaction or commitment where the conflict exists.

3. If there is any doubt as to whether a specific transaction or commitment involves a conflict of interest for any Commissioner or any of the Commission's staff, the conflict of interest shall be deemed to exist and the procedures in this policy shall apply.

4. All reviews, evaluations, analyses, commentaries, and recommendations associated with the Commission's consideration of specific transactions and commitments will be undertaken under the direction of the Commissioners. Prior to issuing such direction on any transaction or commitment, each Commissioner who has declared a conflict shall immediately be excluded from further consideration of the matter. When any of the Commissioners declare a conflict of interest, the following procedures shall apply during the Commission's consideration of the transaction or commitment:

   (a) If more than two of the Commissioners have declared a conflict of interest, then no further action shall be taken on the specific transaction or commitment. Such situations will be identified in the Commission's final report.

(b) If two of the Commissioners declare a conflict of interest and if the Executive Director is not in a conflict situation, the remaining two Commissioners (i.e. the ones without a conflict) plus the Executive Director shall determine what further action will be taken on the matter.

(c) If only one of the Commissioners declares a conflict, the remaining three Commissioners shall determine what further action will be taken on a specific transaction or commitment.

All decisions of the Commission concerning the review of specific transactions or commitments will require the support of a majority of the individuals who are eligible (in accordance with this policy) to participate in the deliberations.

5. The Executive Director will ensure that work assignments are made only to members of the Commission's staff who have not declared a conflict of interest with respect to the specific matter. If a situation arises where all of the staff are in conflict and therefore, the specific matter cannot be assigned to any of them, the Executive Director shall report this to the Commission who, in turn, can:

(a) decide that no further action shall be taken on the specific transaction or commitment (and accordingly, this decision will be identified in its final report), or

(b) obtain the services of additional staff or external consultants who do not have a conflict of interest to take whatever action is directed by the Commission.

6. The Commissioners and the Commission's professional staff have signed a commitment that they will disclose, in writing to the other Commissioners, the nature and extent of their conflict of interest.

Confidentiality Policy

All information which is obtained through the Commission shall be treated on a confidential basis by the Commissioners and the Commission's staff. Such information will not be used for the benefit of themselves or of their clients and/or employers.